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Strategic Marketing

Dr. George Balabanis

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STRATEGIC MARKETING

Tutor Dr. George Balabanis, senior lecturer

Objectives

This course examines recent developments in marketing thinking and market strategy development. It focuses on the dynamic aspects of market strategy development and current issues such as relationship and Internet marketing. The course will try to give you practical experience on how to develop and adjust strategies in an integrative manner through the use of a simulation exercise.

The main objectives of the course are to:

- introduce you to a systematic way of thinking about developing marketing strategies
- familiarise you with current advances practices in marketing strategy
- to help you develop your analytical and problem-solving skills in marketing

Upon completion of the course you should be able:

- to appreciate market strategies as well the processes underlying the development of marketing strategies
- to identify, analyse and put together what is needed to develop sound strategies
- to make and implement sound marketing decisions in a dynamic environment

Textbook

The textbook for this course is:

Peter R. Dickson (1997) "Marketing Management, 2nd edition", Dryden Press, £28

Assessment strategy

Your performance will be assessed on the following elements:

Exam

Marketing simulation, reports and presentation

Class attendance, class participation, and miscellaneous efforts

Marketing simulation

The simulation will be based on the following text:

James, Stuart W., Thomas C. Kinnear and Michael Deighan (2001), PharmaSim: A Brand Management Simulation. Charlottesville VA: Interpretive Software, Inc.

The simulation will be played by groups of 5 to 6 students. Please make sure you have a group by week 2.

Each group will have to prepare and submit two written reports and to make a *presentation*. The reports include: (1) a 4 to 6 pages memo to an imaginary brand manager that succeeds you in the game and (2) a "learning outcome brief" which highlights what you have learned from the exercise (1-2 pages). Submission deadline for the reports is week 9; one day before the first set of presentations

Planned Activities

In your course schedule there is a list of activities for each lecture. Please prepare them before you come to class. This will save a lot of valuable time and increase the learning experience. However, as the completion of each activity depends on the level of preparation and how fast the class works, it is likely that we may not be able to complete some of them. Moreover, to maintain some flexibility, there may be some alteration in these activities. In any case, you will be informed for any changes by email so make sure that you check your email regularly

Course Schedule

Please note that the schedule below is meant to be flexible. Although I will make a good faith effort to cover all of the material listed below, this may not be possible. A rather extensive additional readings list is provided, but it is only for those who wish to get a deeper knowledge of the covered areas.

Session 1	INTRODUCTION TO COURSE- CONVENTIONAL AND NEW APPROACHES TO MARKETING ▪ evolution of marketing thought ▪ the new marketing environment ▪ the necessity for new approach ▪ competitive rationality theory <u>Essential Reading</u> Dickson chapter 1 <u>Additional reading (optional)</u> Philip Kotler, Dipak C. Jain, and Suvit Maesincee (2002) “Marketing Moves: A New Approach to Profits, Growth, and Renewal “ Harvard Business School Press, Boston <u>Dynamic strategic thinking</u>, By: Dickson Peter R, Paul W Farris and Willem J M I Verbeke Journal of the Academy of Marketing Science, 2001 vol.29, no.3, <i>available online at Lexis-Nexis (need to login first)</i> <u>Marketing 202: What the Gurus are telling us today</u>; By: Billington, Jim., Harvard Management Update, Jan99, Vol. 4 Issue 1, p8, 2p, <i>available online at Business Source Premier</i> <u>Marketing Management in Changing Times</u>; By: Webster, Frederick E., Marketing Management, Jan/Feb2002, Vol. 11 Issue 1, p18, 6p, <i>available online at Business Source Premier</i> <u>Planned activities</u> Discussion: <u>Torment your customers (they'll love it)</u>; By: Brown, Stephen., Harvard Business Review, Oct2001, Vol. 79 Issue 9, p82, <i>available online at Business Source Premier</i>
Session 2	GENERAL APPROACHES TO STRATEGY MAKING AND PLANNING

	▪ what is strategy and what planning ▪ how strategies are developed ▪ what is wrong with traditional strategic planning <u>Essential Reading</u> The Strategy Concept I: Five Ps For Strategy. By: Mintzberg, Henry., California Management Review, Fall87, Vol. 30 Issue 1, p11, 14p; , <i>available online at Business Source Premier</i> The fall and rise of strategic planning.; By: Mintzberg, Henry., Harvard Business Review, Jan/Feb94, Vol. 72 Issue 1, p107, 8p; , <i>available online at Business Source Premier</i> Dickson chapter 2 <u>Additional reading (optional)</u> The Future of Strategy: Historic Prologue.; By: Oliver, Richard W., Journal of Business Strategy, Jul/Aug2002, Vol. 23 Issue 4, p6, 4p, , <i>available online at Business Source Premier</i> The pitfalls of strategic planning.; By: Mintzberg, Henry., California Management Review, Fall93, Vol. 36 Issue 1, p32, 16p; , <i>available online at Business Source Premier</i> Reflecting on the Strategy Process.; By: Mintzberg, Henry; Lampel, Joseph., Sloan Management Review, Spring99, Vol. 40 Issue 3, p21, 10p, , <i>available online at Business Source Premier</i> The Strategy Concept II: Another Look at Why Organizations Need Strategies. By: Mintzberg, Henry., California Management Review, Fall87, Vol. 30 Issue; , <i>available online at Business Source Premier</i> Making strategy: Learning by doing.; By: Christensen, Clayton M., Harvard Business Review, Nov/Dec97, Vol. 75 Issue 6, p141, 9p; <i>available online at Business Source Premier</i> Discovery-driven planning.; By: McGrath, Rita Gunther; MacMillan, Ian C., Harvard Business Review, Jul/Aug95, Vol. 73 Issue 4, p44, 9p; <i>available online at Business Source Premier</i> Strategy under uncertainty.; By: Courtney, Hugh; Kirkland, Jane., Harvard Business Review, Nov/Dec97, Vol. 75 Issue 6, p67, 14p, <i>available online at Business Source Premier</i> <u>Planned activities</u> Discussion: Should Strategy Makers Become Dream Weavers?; By: Stopford, John., Harvard Business Review, Jan2001, Vol. 79 Issue 1, p165, 5p <i>available online at Business Source Premier</i> SUBMIT LISTS WITH NAMES OF MEMBERS IN EACH GROUP
Session 3	INTRODUCTION TO THE PHARMASIM SIMULATION THE MARKETING STRATEGY MAKING PROCESS ▪ marketing decision making ▪ how marketing strategy is integrated to the business strategy ▪ who and how should develop marketing strategies

	▪ the annual marketing planning <u>Essential Reading</u> Dickson chapter 2 <u>Additional reading (optional)</u> Strategic Marketing Planning for Radically New Products.; By: Cooper, Lee G., Journal of Marketing, Jan2000, Vol. 64 Issue 1, p1, 16p; <i>available online at Business Source Premier</i> Strategic Marketing Planning: Theory, Practice and Research Agendas.; By: McDonald, Malcolm., Journal of Marketing Management, Jan-Apr96, Vol. 12 Issue 1-3, p5, 23p; <i>available online at Business Source Premier</i> Fast-cycle decision making.; By: Prewitt, Edward., Harvard Management Update, Aug98, Vol. 3 Issue 8, p8, <i>available online at Business Source Premier</i> Speed and Strategic Choice: How Managers Accelerate Decision Making.; By: Eisenhardt, Kathleen M., California Management Review, Spring90, Vol. 32 Issue 3, p39; <i>available online at Business Source Premier</i> Teamwork at the top.; By: Herb, Erika; Leslie, Keith; Price, Colin., McKinsey Quarterly, 2001 Issue 2, p32, 12p, <i>available online at Business Source Premier</i> Decision Making: It's Not What You Think.; By: Mintzberg, Henry; Westley, Frances., MIT Sloan Management Review, Spring2001, Vol. 42 Issue 3, p89, 5p; <i>available online at Business Source Premier</i> What You Don't Know About Making Decisions.; By: Garvin, David A.; Roberto, Michael A., Harvard Business Review, Sep2001, Vol. 79 Issue 8, p108, 9p; <i>available online at Business Source Premier</i> <u>Planned activities</u> Prepare question 10 of chapter 2
Session 4	ANALYSING THE MARKETING ENVIRONMENT 1 - ORGANISATION AND COMPETITORS (in two sessions) ▪ auditing marketing strengths ▪ the role of vision and corporate culture ▪ core competencies ▪ identifying and analysing competitors ▪ anticipate competitor moves <u>Essential Reading</u> Dickson chapters 4 and 6 <u>Additional reading (optional)</u> D'Aveni, Richard A. (1994), Hypercompetition: Managing the Dynamics of Strategic Maneuvering, Free Press Oster S. (1994), Modern Competitive Analysis, Oxford, 2nd edition Evaluate your company with 'marketing due diligence'.; Harvard Management Update, May99, Vol. 4 Issue 5, p3, 3p; <i>available online at Business Source Premier</i> A Rules-Based Approach to Competitive Interaction.; By: Thomas, Gloria P.; Soldow, Gary F., Journal of Marketing, Apr88, Vol. 52 Issue 2, p63, 12p.; <i>available</i>

	<i>online at Business Source Premier</i> It's the third millennium: Do you know where your competitor is?; By: Nolan III, John A., Journal of Business Strategy, Nov/Dec99, Vol. 20 Issue 6, p11, 5p; <i>available online at Business Source Premier</i> Managing Competitive Interactions.; By: Clark, Bruce H., Marketing Management, Fall/Winter98, Vol. 7 Issue 4, p8, 13p, <i>available online at Business Source Premier</i> Invisible Competition: Some Lessons Learned.; By: Fox, Kenneth A., Journal of Business Strategy, Jul/Aug2001, Vol. 22 Issue 4, p36, 3p; <i>available online at Business Source Premier</i> How to Identify Your Enemies Before They Destroy You.; By: Rafii, Farshad; Kampas, Paul J., Harvard Business Review, Nov2002, Vol. 80 Issue 11, p115, 9p; <i>available online at Business Source Premier</i> <u>Planned activities</u> Prepare questions 1 and 8 of chapter 6
Session 5	ANALYSING COMPETITION (continued) AND CHANNELS ▪ Trends in marketing channels ▪ analysing channels and channel relationships ▪ The role of the Internet ▪ auditing main marketing channels <u>Essential Reading</u> Dickson chapters 7 <u>Additional reading (optional)</u> Researching channels.; By: Wyner, Gordon., Marketing Research, Summer95, Vol. 7 Issue 3, p42, 3p; <i>available online at Business Source Premier</i> Changing Channels: The Impact of the Internet on Distribution Strategy.; By: Pitt, Leyland; Berthon, Pierre., Business Horizons, Mar/Apr99, Vol. 42 Issue 2, p19, 10p; <i>available online at Business Source Premier</i> Make Your Dealers Your Partners.; By: Fites, Donald V., Harvard Business Review, Mar/Apr96, Vol. 74 Issue 2, p84, 12p; <i>available online at Business Source Premier</i> Rethinking distribution: Adaptive channels.; By: Narus, James A.; Anderson, James C., Harvard Business Review, Jul/Aug96, Vol. 74 Issue 4, p112; <i>available online at Business Source Premier</i> Contextual Marketing.; By: Kenny, David; Marshall, John F., Harvard Business Review, Nov/Dec2000, Vol. 78 Issue 6, p119, 7p, <i>available online at Business Source Premier</i> How to acquire customers on the web.; By: Hoffman, Donna L.; Novak, Thomas P., Harvard Business Review, May/Jun2000, Vol. 78 Issue 3, p179, 7p; <i>available online at Business Source Premier</i> The Old Pillars of New Retailing.; By: Berry, Leonard L., Harvard Business Review, Apr2001, Vol. 79 Issue 4, p131, 7p, <i>available online at Business Source Premier</i> <u>Planned activities</u> Question 17 of chapter 7.

Session 6	ANALYSING CONSUMERS. MARKET SEGMENTATION ▪ Understanding consumers ▪ segmenting and analysing the market - an integrated process <u>Essential reading</u> Dickson chapters 5 <u>Additional reading (optional)</u> Segmentation Architecture.; By: Wyner, Gordon A., Marketing Management, Mar/Apr2002, Vol. 11 Issue 2, p6, 2p; <i>available online at Business Source Premier</i> The Buzz on Buzz.; By: Dye, Renee., Harvard Business Review, Nov/Dec2000, Vol. 78 Issue 6, p139, 8p, <i>available online at Business Source Premier</i> <u>Planned activities</u> Prepare question 14 of chapter 5 and if time allows Discussion: Is Something Rotten In Segmentation?; By: Gibson, Lawrence D., Marketing Research, Spring2001, Vol. 13 Issue 1, p20, 6p
Session 7	MARKET RESEARCH -AND MARKETING INTELLIGENCE ▪ deciding which type of market research technique to use ▪ market research in hypercompetitive environments ▪ how collected information is used <u>Essential Reading</u> Dickson chapter 3 Rx for Marketing Research.; By: Mahajan, Vijay; Wind, Jerry., Marketing Research, Fall99, Vol. 11 Issue 3, p6, 8p, <i>available online at Business Source Premier</i> <u>Additional reading (optional)</u> Turning Marketing Research High-Tech.; By: Sultan, Fareena; Barczak, Gloria., Marketing Management, Winter99, Vol. 8 Issue 4, p24, 7p, <i>available online at Business Source Premier</i> Taking a road trip. (cover story); By: McQuarrie, Edward F., Marketing Management, Spring95, Vol. 3 Issue 4, p8, 13p; <i>available online at Business Source Premier</i> Spend a day in the life of your customers.; By: Gouillart, Francis J.; Sturdivant, Frederick D., Harvard Business Review, Jan/Feb94, Vol. 72 Issue 1, p116, 10p, <i>available online at Business Source Premier</i> Are You Reaching Your Customers?; By: Bierck, Richard., Harvard Management Communication Letter, Dec2000, Vol. 3 Issue 12, p4, 2p; <i>available online at Business Source Premier</i> Toward strategic intelligence systems.; By: Montgomery, David B.; Weinberg, Charles B., Marketing Management, Winter98, Vol. 6 Issue 4, p44, 9p, <i>available online at Business Source Premier</i> <u>Planned activities</u> Prepare questions 4 and 5 of chapter 3

Session 8	TARGETTING, POSITIONING, DEVELOPING AND MANAGING OFFERS - PRODUCT DIFFERENTIATION AND BRANDING ▪ identifying customers to serve ▪ identifying a positioning ▪ differentiating products and services ▪ assessing feasibility of identified position ▪ measuring and developing brand equity <u>Essential Reading</u> Dickson chapter 9 Building Customer-Based Brand Equity. By: Keller, Kevin Lane., Marketing Management, Jul/Aug2001, Vol. 10 Issue 2, p14, 6p, <i>available online at Business Source Premier</i> Managing Brands for the Long Run: Brand Reinforcement and Revitalization Strategies.; By: Keller, Kevin Lane., California Management Review, Spring99, Vol. 41 Issue 3, p102, 23p <i>available online at Business Source Premier</i> <u>Additional reading (optional)</u> Market segmentation: A strategic management tool.; By: Johnson, Richard M., Marketing Management, Spring95, Vol. 3 Issue 4, p49, 5p, <i>available online at Business Source Premier</i> Customer Selection.; By: Wyner, Gordon A., Marketing Research, Spring2000, Vol. 12 Issue 1, p42, 3p, <i>available online at Business Source Premier</i> The ABCs of positioning.; By: Lautman, Martin R., Marketing Research, Winter93, Vol. 5 Issue 1, p12, 7p, 4 Got Emotional Product Positioning?; By: Mahajan, Vijay; Wind, Yoram (Jerry)., Marketing Management, May/Jun2002, Vol. 11 Issue 3, p36, 6p, <i>available online at Business Source Premier</i> Discovering new points of differentiation.; By: MacMillan, Ian C.; McGrath, Rita Gunther., Harvard Business Review, Jul/Aug97, Vol. 75 Issue 4, p133 <i>available online at Business Source Premier</i> What High-Tech Managers Need to Know About Brands.; By: Ward, Scott; Light, Larry; Goldstine, Jonathan., Harvard Business Review, Jul/Aug99, Vol. 77 Issue 4, p85, 11p, <i>available online at Business Source Premier</i> Demystifying brand equity.; By: Teas, R. Kenneth; Grapentine, Terry H., Marketing Research, Summer96, Vol. 8 Issue 2, p24, 6p, 1 <i>available online at Business Source Premier</i> Brand leverage power: The critical role of brand balance.; By: Lane, Vicki R., Business Horizons, Jan/Feb98, Vol. 41 Issue 1, p75, 10p <i>available online at Business Source Premier</i> Your brand's best strategy.; By: Vishwanath, Vijay; Mark, Jonathan., Harvard Business Review, May/Jun97, Vol. 75 Issue 3, p123, 7p, <i>available online at Business Source Premier</i> Market Segmentation, Product Differentiation, and Marketing Strategy. By: Dickson, Peter R.; Ginter, James L., Journal of Marketing, Apr87, Vol. 51 Issue 2 <i>available online at Business Source Premier</i> <u>Planned activities</u> Prepare questions, 8 14 and 23 of chapter 9
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Session 9	PRESENTATIONS (groups #1-5) (depending on number of students taking the class)
Session 10	PRESENTATIONS (groups #6-10), REVISION

PHARMASIM SIMULATION

Learning objectives

The learning objective of this simulation like any other simulation games is "experiential learning" or learning by doing. Specifically the main objectives of the simulation exercise are to help you:

- Understand the main duties and responsibilities involved in managing a brand;
- Apply marketing theories and analytic tools in dealing with the problems related to the management of a brand or brand portfolio;
- Think analytically, creatively, critically, practically and above all in an integrated manner about marketing decision making;

Class arrangements -Rules of Engagement

Each team will receive the PharmaSim and manual software and will be responsible for "Allround", an OTC (over-the-counter) cold medicine. You will be responsible for managing the brand for ten periods (period 0 to Period 9) (each period is an entire year).

Each one of you will work as a member of a team of 5-6 students

Pharmasim should be run directly off the floppy disk.

All teams will use **Scenario 2** and use the **"Default" simulation level** (*File> Simulation level*). You will start out as *Brand Assistants*. Before Period 2, you should get automatically promoted to *Assistant Brand Manager*. If for some reason, you do not get promoted, promote yourself by changing the Simulation Level. As you enter Period 5, you should again get promoted, this time to *Brand Manager*. If this does not happen automatically, promote yourselves to Brand Manager before you make decisions for Period 5 by changing the simulation level. Note that this allows everyone to start off with the same position in the marketplace as in charge of the Allaround brand, and each team will have to deal with the same decisions as you proceed through the different periods.

Before you make any decisions, it is important that you carefully consider the available information and analyse the case just as you would for any case. Thus, you need to prepare a written description of what your initial strategy will be for the first period and your rationale for those decisions. Please note that *all of the information examples in section 2 apply to the first period (Period 0), so you have all that information for free.* However, you have to buy most of this information in the subsequent periods. **Do not buy any research reports in Period 0.**

Decisions

The decisions you have to make vary from level to level are highlighted in the case's manual. They include: a manufacturer's suggested retail price and the level of any volume discounts as well as the discounts you give to wholesalers; an advertising budget, selected advertising agency, and the relative emphasis on four types of ad messages; a promotions budget with allocations to co-operative advertising and three types of consumer promotions; and the sales force, including how many sales people allocated to five different types of retail stores as well as to wholesale and indirect support functions.

Budget constraints

Your total budget across advertising, promotions, and sales will be constrained by a total available budget. (This annual budget may change in subsequent years, and any unspent budget will be added to profits). For each of these decisions, including the ones about price, indicate your reasons based on your analysis of the current strengths and weaknesses of Allstar and its brand Allaround, the case, and your overall strategy.

Memo to the Successor

The decision for EACH period should be accompanied by a brief report justifying your decision and highlighting your objectives. These reports (one for every period) will be put together and appended to your "Memo to the Successor".

The purpose of this is to make you to think carefully about the case, carefully consider and analyse the available information (including all that is in sections 1 and 2 of the manual), and commit yourselves to a plan before you get caught up in the details of making and inputting decisions and getting your results. This will help you not to lose perspective throughout the multitude of decisions you have to make. It is important that for each period, **keep track** of not only what you did but also your rationale and what you concluded from the results.

You have also to consider what measures of effectiveness you believe to be important and why they are important. These measures may be taken from various company reports, market results (both free reports and those for which a fee must be paid), and the consumer survey.

Each group should prepare a 4-6 pages typewritten memo (excluding appendices) addressed to the Brand Manager who will take over the business in year 11 (Period 10). The purpose of this memo is to summarise your decisions over the ten years and how they changed over that period. Very briefly you have to describe what you tried to accomplish (objectives), why you did what you did (basis of strategy), what were the outcomes of your decisions, how you reacted, etc. What surprised you? What worked and what did not? What advice would you give? What variables did you monitor that proved useful; what was not useful? What measures of success did you add to what you monitored and why? It might be useful to break down this chronological description by the various decision areas (e.g., pricing, advertising, promotion, distribution, competition, etc.).

In your memo you should also include as appendix:

- The reports justifying your decision for EACH period (it can be hand-written)
- print outs of the "**Administrator's Report**" (FILE) for **EACH** period and
- **the floppy disk with all of your decisions** (backup files). This disk will be used to evaluate your performance and decisions. Original disk (clearly

labelled with the names of the groups) should be handed in separately in week 9 (before presentations)

IMPORTANT. DO NOT FORGET

- **to print out the *Administrator's Reports* after each period's decisions have been made and before you advance the next period.** You have to append all of them at your memo to the successor. Printouts of the report also can be used as a back up to reconstruct your decisions in case the system crashes or other problems (damaged disks, wrong entries, etc.)
- **Use the same PharmaSim disk to record all of your decisions for each period.** You will need to hand it in together with your "Memo to the Successor". If possible, make a copy of this disk before you hand in the original.

Learning Outcome Brief and Presentation

In addition to the above you have to hand in a one-page report on *what you have learned* from the PharmaSim case. You should explain what would you do differently if you could replay the simulation? What lessons you have learned about marketing? You might comment on not only general lessons about how and why various marketing tactics work but how tactics should vary by the situation facing different brands.

Each group will have up to 15 minutes (timed) to give an *oral presentation* of their experience, in weeks 9 and 10, respectively.

Marking

Your mark will be based on the following:

RESULTS (50%)

- the cumulative ten year financial results;
- the cumulative financial results of the last four years

REPORTS AND PRESENTATION (50%)

- the logic and analysis of your year to year strategy and tactics (memo);
- the number and quality (i.e., level of detail, insight, and uniqueness) of your conclusions about what you learned (learning outcome brief) and
- the quality of oral presentation

Class schedule

Week 2 Formation of groups

Week 3 Brief presentation of the case and simulation rules.

Week 9 Submission of "Memo to the Successor" and learning outcome reports, floppy disk (clearly labelled) and manual Presentations for the first set of groups

Week 10 Presentations for the second set of groups

Manual for the simulation

James, Stuart W., Thomas C. Kinnear and Michael Deighan (2001), PharmaSim: A Brand Management Simulation. Charlottesville VA: Interpretive Software, Inc.

Your lecturer

George Balabanis holds a BSc(Hons) in Business Studies from the University of Piraeus (Greece) and a PhD in marketing from the University of Strathclyde. His doctoral research was on the antecedents of international trade intermediaries' export performance. He is currently working on several projects like country of origin effects, consumer ethnocentrism, Internet marketing and relationship marketing. His research has been published at the *Journal Of International Business Studies*, *British Journal of Management*, *Journal of Global Marketing*, *European Journal of Marketing*, *Journal of Business Strategies*, *Journal of Marketing Management*, *European Business Review* and conference proceedings. Before joining CUBS as senior lecturer he has worked in the power generation industry and has lectured at the University of Wales at Swansea

Introduction to Marketing

Objectives

- To trace the evolution of marketing thinking
- to understand the changing role of marketing in the current environments
- to introduce a new approach of marketing thinking

A HISTORICAL PERSPECTIVE TO MARKETING STRATEGY

I. The classical years (1910 -1950)

- descriptive work, checklists ,emphasis on aggregate market behaviour
- development of new concepts and issues (e.g., product differentiation, and issues in advertising, pricing and distribution)
- the strategic objective: budgeting and control

A HISTORICAL PERSPECTIVE TO MARKETING STRATEGY

II.The managerial years (1951-69)

- introduce “marketing-mix-management” as a co-ordinated, integrated function
- environment was considered as uncontrollable
- emphasis on long-range planning

A HISTORICAL PERSPECTIVE TO MARKETING STRATEGY

III. The adaptive years (1971-1982)

(the Strategic Planning School of thought)

- emphasis on: achieving and sustaining competitive advantage, repositioning, entering and divesting product markets and optimal resource allocation among product markets
- focus on an in-depth understanding of the environment including competition
- focus on competition and ways to gain competitive advantage by “adapting” to changing environment
- misplaced overemphasis on market share as the main strategic objective

A HISTORICAL PERSPECTIVE TO MARKETING STRATEGY

IV The proactive years (1983-today)

The Strategic Thinking

- critical thinking
- focus on entrepreneurship inside and outside the organisation
- focus on the creation of opportunities by being proactive and innovative at every decision-making level
- the main premise is that firms can manage and shape their environments

The main concepts of marketing

- Customer orientation
- the synergy concept
- The product life cycle concept

- **Firms need to outdo their competitors in satisfying customers**
- **Firms need also to understand and respond to changes in competition, channel and regulators' behaviours**

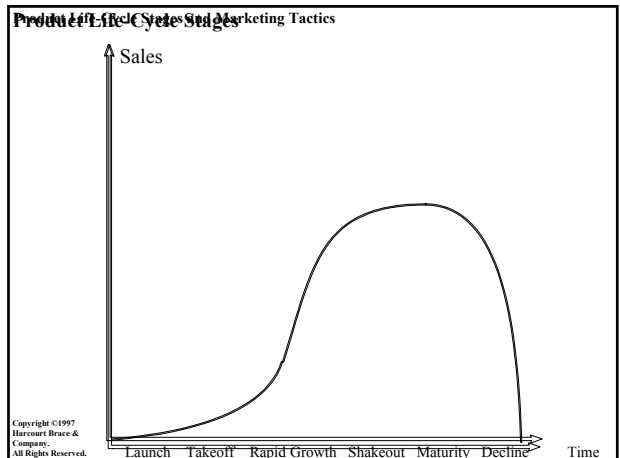
The Synergy Concept

- **The firm that creates marketing tactics that fit together well and co-ordinates their implementation in the right order will do much better than the firm whose tactics and implementation are confused and disjointed.**

- **other functions of the value-added chain need to be integrated and co-ordinated as well**

The Product Life-cycle

- **Like a living organism, a product goes through a birth stage, growth stage, mature stage and decline stage.**
- **Firms should emphasise different marketing strategies and tactics at different stages.**



A New Theory of Marketing

- Marketing s changes its focus from equilibrium management (why and how markets settle down) to disequilibrium management (why and how markets are constantly changing through the development of competitive products and production processes)

New focus

- **How and why is the market changing?**
- **What is driving the change?**

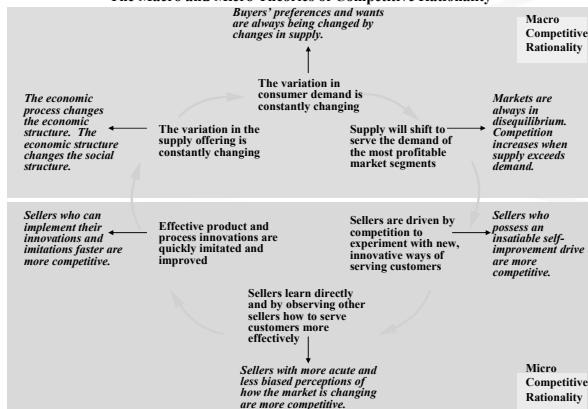
Why?

- **HYPERCOMPETITION**
- Hypercompetition is when several sellers are aggressively innovating new products, distribution channels and cost-cutting programs and quickly imitating each other's innovations

Behaviour of Hypercompetition

- advantages do not last
- new market segments are created
- distribution innovations are very important
- hypercompetitive markets feed themselves
- price wars are common

The Macro and Micro Theories of Competitive Rationality



The three drives

- The customer satisfaction drive
- The process cost reduction drive
- The process improvement drive

The Macro and Micro Theories of Competitive Rationality

**Macro
Competitive
Rationality**

*Buyers' preferences and wants
are always being changed by
changes in supply.*

The variation in
consumer demand is
constantly changing

Supply will shift to
serve the demand of
the most profitable
market segments

*Markets are
always in
disequilibrium.
Competition
increases when
supply exceeds
demand.*

The variation in the
supply offering is
constantly changing

*The economic
process changes
the economic
structure. The
economic structure
changes the social
structure.*

*Sellers who
possess an
insatiable self-
improvement drive
are more
competitive.*

Sellers are driven by
competition to
experiment with new,
innovative ways of
serving customers

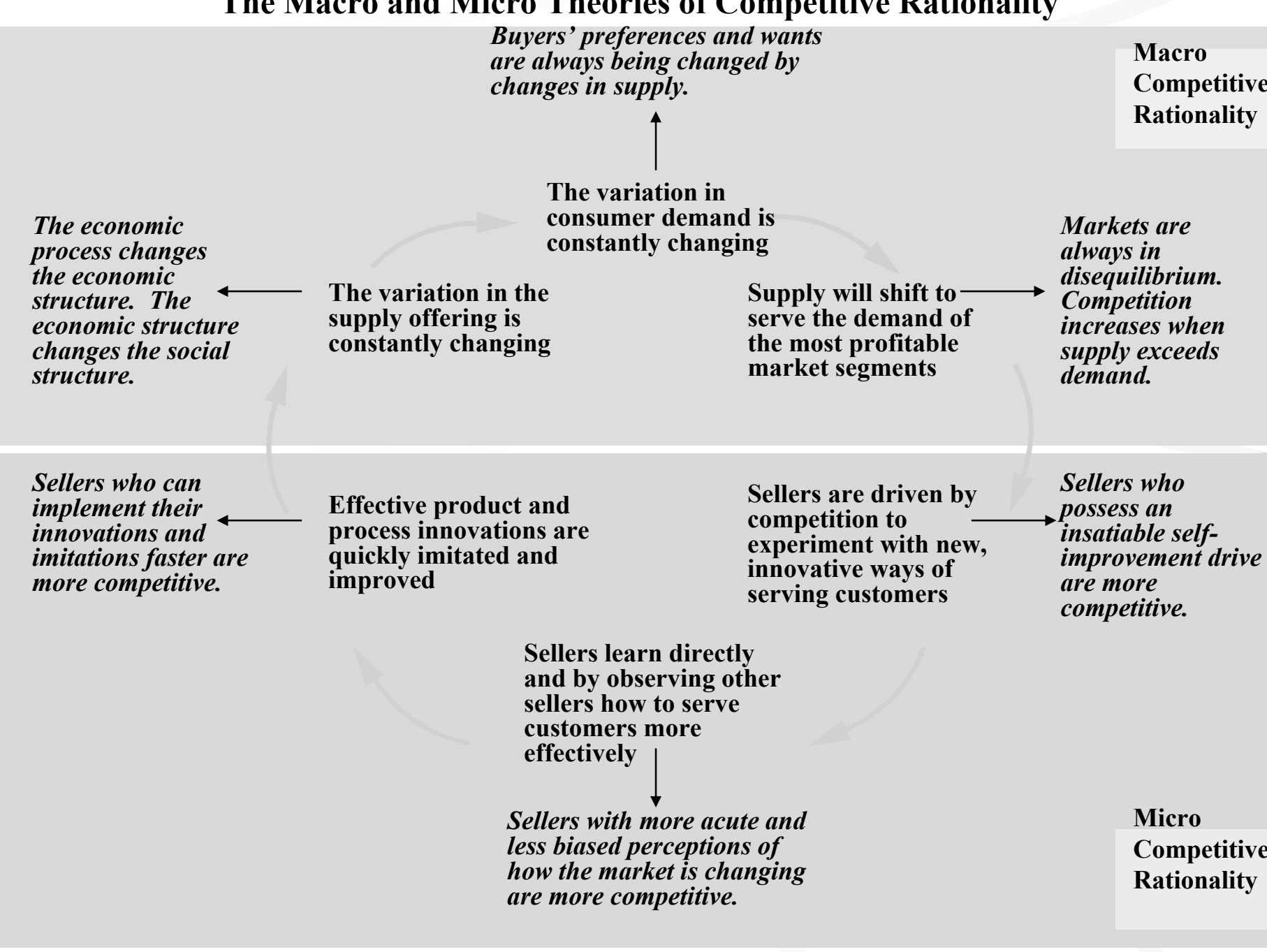
Effective product and
process innovations are
quickly imitated and
improved

*Sellers who can
implement their
innovations and
imitations faster are
more competitive.*

Sellers learn directly
and by observing other
sellers how to serve
customers more
effectively

*Sellers with more acute and
less biased perceptions of
how the market is changing
are more competitive.*

**Micro
Competitive
Rationality**



Strategic marketing

Strategic Planning

OBJECTIVES

- ⌘ What is planning?
- ⌘ Why organisations plan?
- ⌘ What is strategy?
- ⌘ What are the main schools of thought on strategy formation?
- ⌘ What is the planning's approach to strategy formation?
- ⌘ Does formal planning pay?
- ⌘ Why?
- ⌘ Is there a better way to form strategies?

Planning

Planning is a **formalised** procedure to produce an **articulated result**, in the form of an **integrated** system of decisions

WHY TO PLAN?

- ⌘ organisations must plan to co-ordinate their activities
- ⌘ organisations must plan to ensure that the future is taken into account
- ⌘ organisations must plan to be "rational"
- ⌘ organisations must plan to control

WHAT IS STRATEGY?

- ⌘ a plan
- ⌘ a pattern
- ⌘ a position
- ⌘ a perspective

Deliberate and Emergent Strategies



Strategy as position vs. strategy as perspective

		Strategy as Perspective	
		Old	New
Strategy as Position	New	Egg McMuffin	McDuckling à l' Orange
	Old	Big Mac	Big Mac à table

The main schools of thought on strategy formation

SCHOOL	VIEW OF PROCESS
•Design	Conceptual
•Planning	Formal
•Positioning	Analytical
•Cognitive	Mental
•Entrepreneurial	Visionary
•Learning	Emergent
•Political	Power
•Cultural	Ideological
•Environmental	Passive
•Configurational	Episodic

Core "Design School" Model of Strategy



The main premises of the Planning School - premise1

Strategy formation should be controlled and conscious as well as a **formalised** and **elaborated** process, decomposed into distinct steps, each delineated by checklists and supported by techniques

The main premises of the Planning School - premise 2

Responsibility for the overall process rests with the **chief executive** in principle; responsibility for its execution rests with the staff planners

The main premises of the Planning School - premise 3

Strategies come out of this process **fully developed**, typically as generic positions, to be explicated so that they can then be implemented through detailed attention to objectives, budgets, programs, and operating plans of various kinds

What is wrong with planning? (1)

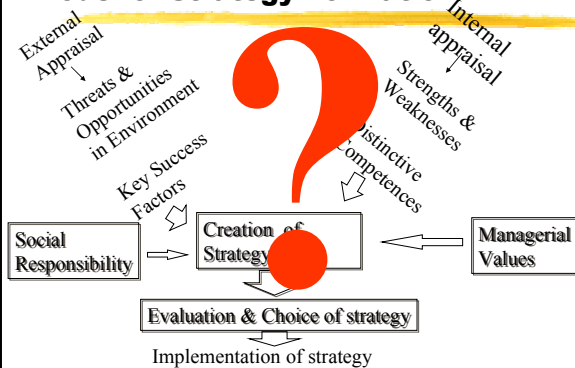
focuses on “objective”
detachment that
undermines commitment
and
evokes politics, and
a tendency toward
conservatism as well as

In summary

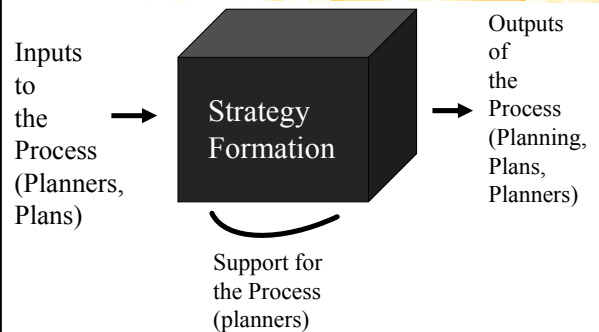
Why Planning fails?

- ⌘ the fallacy of prediction
- ⌘ the fallacy of detachment
- ⌘ the fallacy of formalisation

Core “Design School”/Planning Model of Strategy Formation



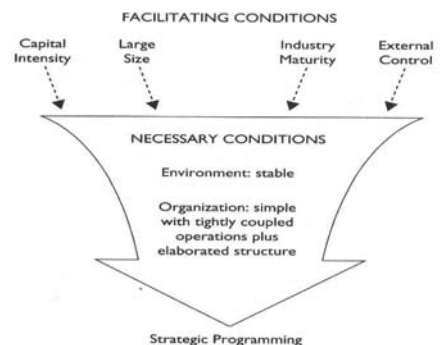
Planning, Plans, and Planners around the Black box of Strategy Formation



The New Role of Planning: Strategic Programming

- ⌘ codification of given strategy
- ⌘ elaboration of that strategy decomposition of its consequences into sub-strategies, ad hoc programs, and action plans
- ⌘ conversion of those sub-strategies, programs and plans into routine budgets and objectives (or performance controls)

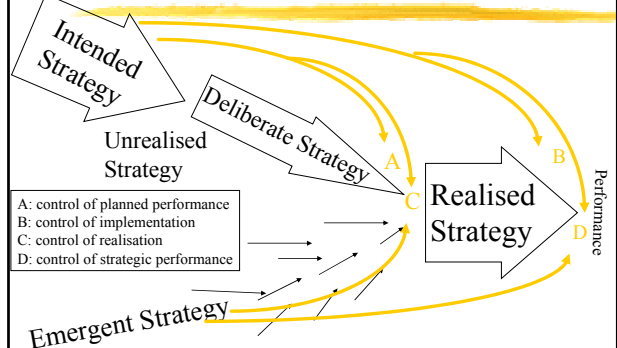
When the use of strategic programming is appropriate?



New Roles of Plans

- ⌘ Communication Media
- ⌘ Control Devices

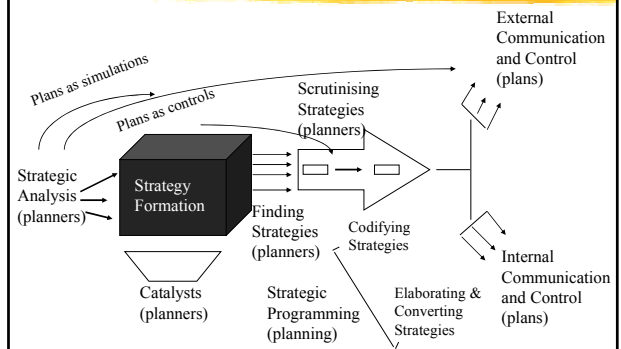
Strategic Control: Traditional (A & B); Enlarged (C & D)



The Role of Planners:

- ⌘ Finders of strategy
- ⌘ Analysts
- ⌘ Catalysts

A Framework for Planning, Planners and Plans



Marketing Decision Making

Objectives

- ⌘ introduce the current thinking on how marketers should make decisions
- ⌘ the concept of cross functional teams
- ⌘ informal and formal decision making
- ⌘ annual marketing plans

Why the decision making process is important?

- ⌘ a clear competitive advantage is to make **informed** decisions **quickly**
- ⌘ P. Drucker suggest that "crises in organisations occur because the assumptions on which the organisation has been built and is being run no longer fit reality"

Why the decision making process is important?

- ⌘ an organisation's survival lies in its ability to learn and adapt quickly.
- ⌘ Plans must be altered at the very time they are implemented

Marketing Decision Making

- ⌘ The relationship between marketing decision making and general business decision making is in transition
- ⌘ Cross-functional marketing decision appears to be the way to go.

What would be the role of marketing function under the cross functional teams DM regime?

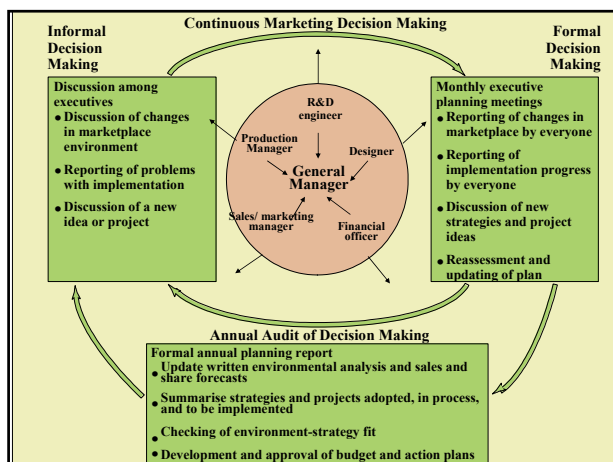
- ⌘ prepare environmental reports
- ⌘ suggest new strategies and tactics
- ⌘ develop action plans and programs
- ⌘ implement action plans & programs

Benefits of cross-functional teams in NPD

- ⌘ enables marketing, design, operational and cost problems to be solved AT THE SAME TIME, not sequentially
- ⌘ INCREASES shared insights, learning and control
- ⌘ BREAKS DOWN the silo mentality of bureaucratic organisation
- ⌘ REDUCES TIME to introduce a new product to the market

Continuous team decision making

1. Casual discussion among executives
2. Formal meetings

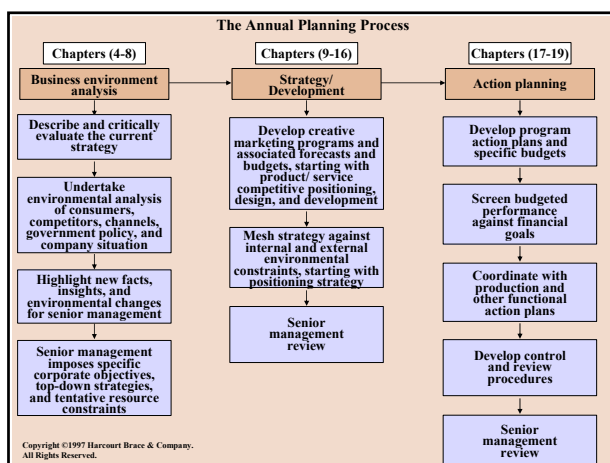


Informal processes

- ⌘ helps to overcome political obstacles
- ⌘ gain co-operation, resources and control
- ⌘ results in the suggestions and enhancement of new tactics and strategy

Functions of the annual marketing plan

- ⌘ **environmental analysis** **UPDATES** everyone on important and emerging issues and what has been learned
- ⌘ **ALLOWS FOR A REVIEW** of the new strategies and tactics
- ⌘ **CHECKS THE FIT** between current and proposed environment and the changing market environment
- ⌘ **REMINDS** the executive committee and others the goals assumptions made and project priorities



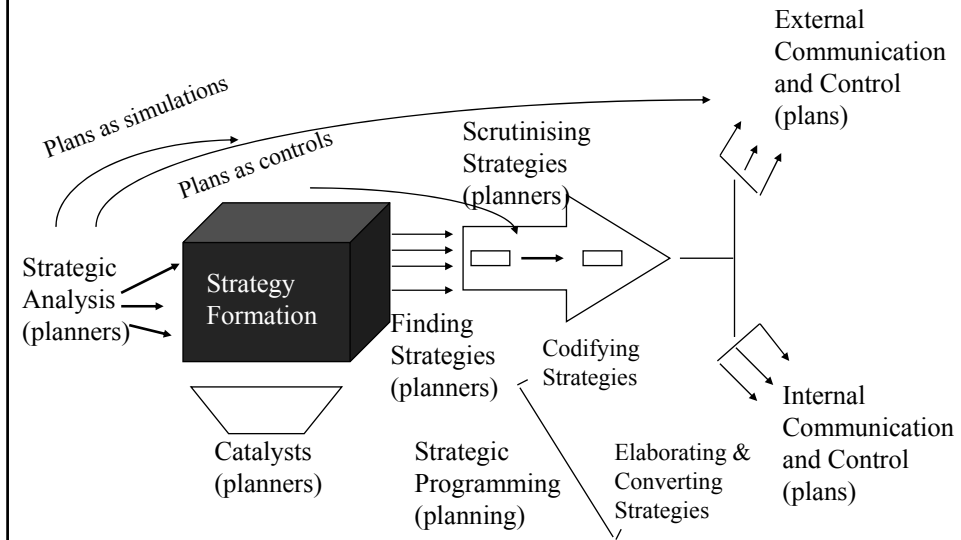
Meshing Strategy and Tactical Programs with Business Environmental Facts

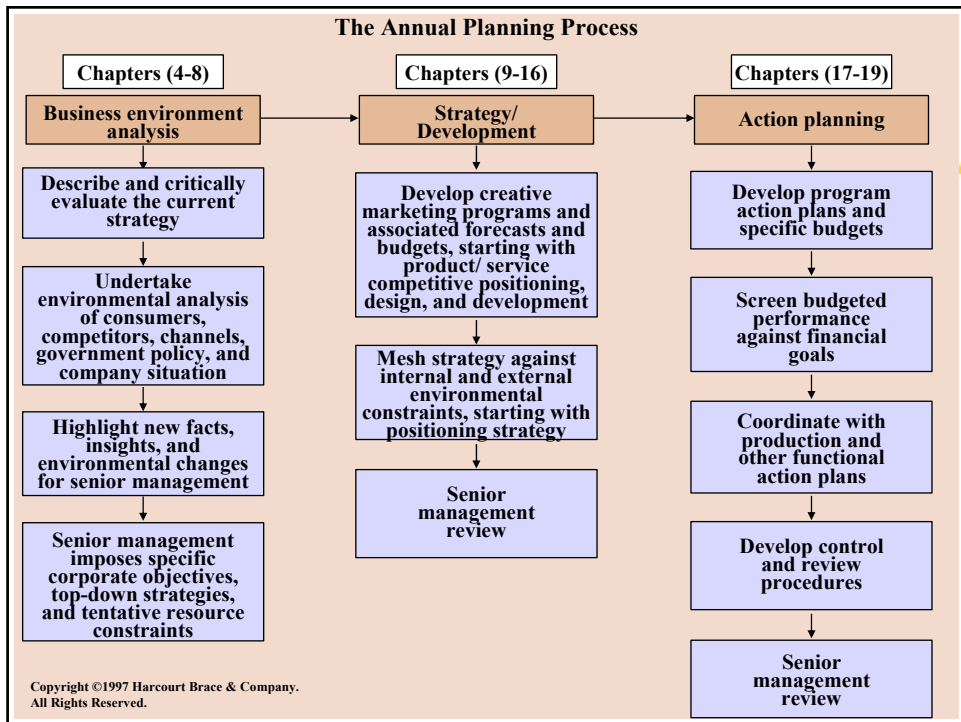


The Typical Contents of an Annual Marketing Plan

CONTENTS	PAGE
Executive Summary	1
Environment Report	2-7
Consumer Analysis	
Competitor Analysis	
Channel Analysis	
Public Policy Analysis	
Company Analysis	
Strategy Report	8-12
Positioning Strategy	
Product Programs	
Pricing/Promotion Programs	
Distribution/Sales Programs	
Advertising/Publicity Programs	
Control Programs	
Forecasts and Budgets	13-15

A Framework for Planning, Planners and Plans





Analysing the Organisation

Objectives

To learn:

- How to analyse an organisation
- how to identify core competencies
- how to use portfolio analysis and set objectives
- how to identify and analyse competitors
- how to anticipate competitor moves

Mission statements

- Companies build their competencies around their mission, processes and people and not around a around a bureaucratic management structure
- A corporate mission should describe:
 - target markets
 - the basic product or service
 - principal technologies to be mastered and
 - competitive competencies to be employed

Core Process Competencies

- Mission may provide INADEQUATE GUIDANCE on the core competencies that should be developed
- a company should search for a COMMON THREAD in its activities and acquisitions
- Threads (or process competencies) involve: purchasing, production, R&D, human resources, materials, logistics and marketing

The further a company moves away from its current products or markets the LESS LIKELY it is to make a profit

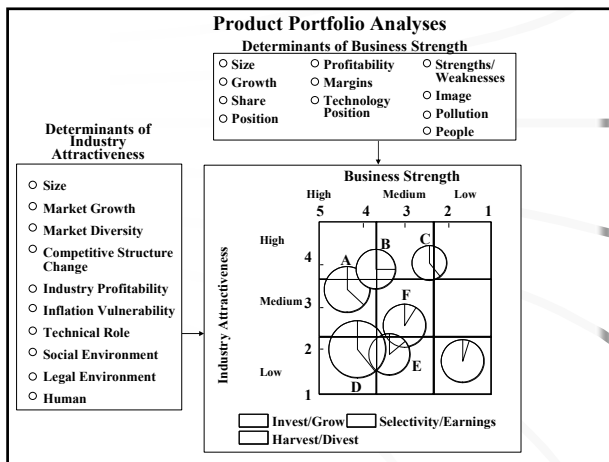
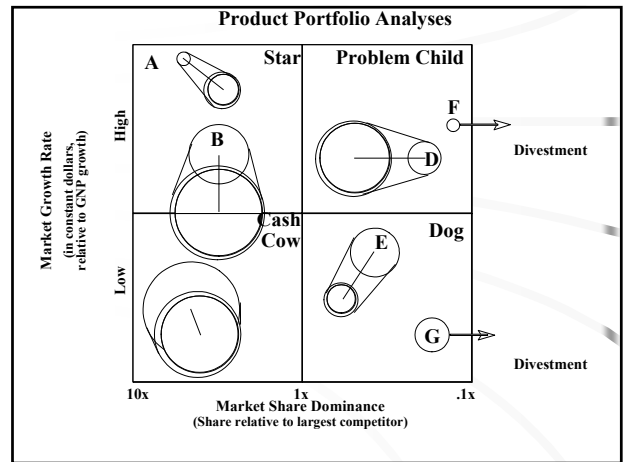
Identifying Market Competencies

- The company should AUDIT itself to identify specific competencies, in areas such as:
 - financial position,
 - market position,
 - product position,
 - pricing,
 - inbound logistics,
 - production,
 - out-bound logistics,
 - trade relations,
 - communication and sales-force
- Use “BENCHMARKING” not only with the best competitors but the best companies in **other** industries

Portfolio analysis and financial goals

Portfolio models are based on two dimensions:

- the attractiveness of the industry/market and
- the competitive position of the company within the industry or market

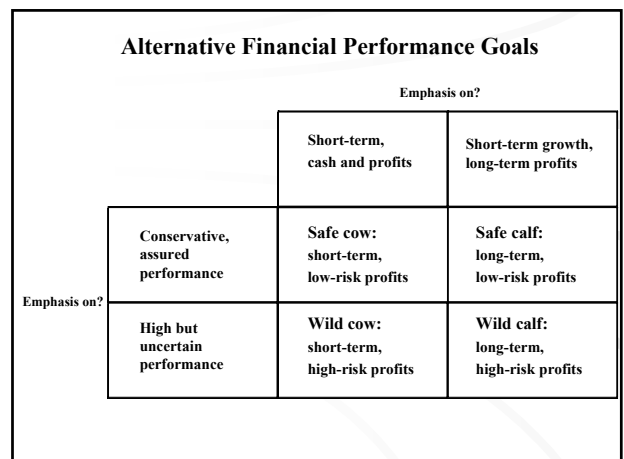


A Critique of Portfolio models

- strategy is not driven by simple risk reduction but by recognising environmental issues and technological competencies
- investors have little control over the portfolio
- considerations of the synergies among products and markets in the portfolio

Setting Financial Goals: Time and Risk Trade Offs

- trade-off between long-term growth and short-term profit making
- trade-off between assured, stable financial performance and high risk adventurous strategy



How to assess an organisation's culture?

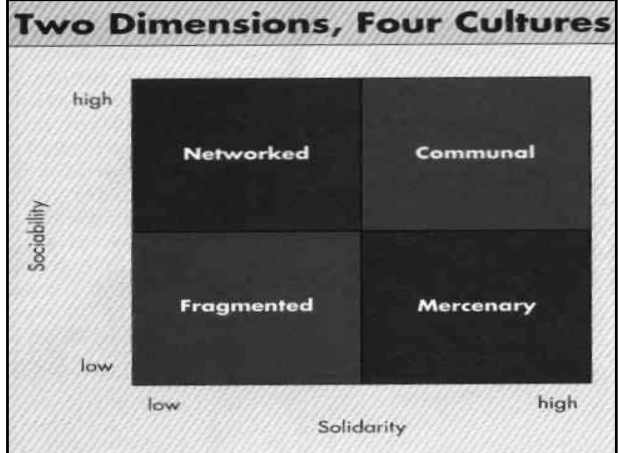
To assess an organisation's level of **SOCIABILITY**, ask the following questions:

1. People here try to make friends and to keep their relationships strong
2. People here get along very well
3. People in our group often socialise outside the office
4. People here really like one another
5. When people leave our group, we stay in touch
6. People here do favours for others because they like one another
7. People here often confide in one another about personal matters

SCALE: LOW MEDIUM HIGH

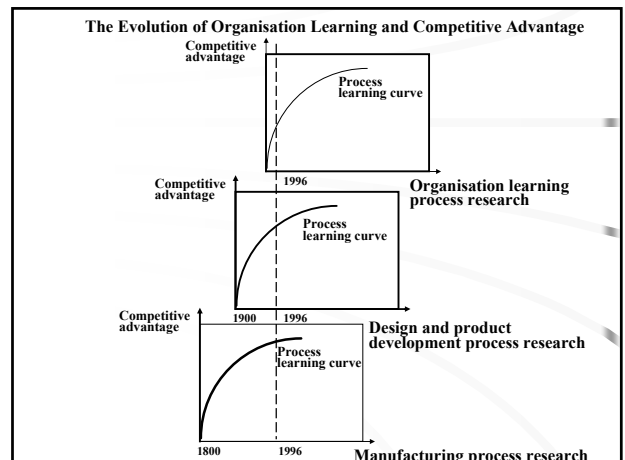
To assess an organisation's level of **SOLIDARITY**, ask the following questions:

1. Our group (organisation, division, unit, team) understands and shares the same business objectives
2. Work gets done effectively and productively
3. Our group takes strong action to address poor performance
4. Our collective will to win is high
5. When opportunities for competitive advantage arise, we move quickly to capitalise on them
6. We share the same strategic goals
7. We know who the competition is



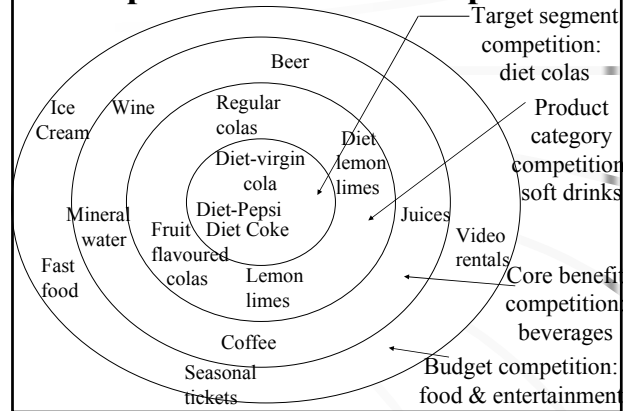
Internal politics between marketing and production functions

- the growth-choke trade off
- adaptation-efficiency trade off



Analysing Competition

Examples of Levels of Competition



- Do not put too much emphasis on statistics like number of competitors, aggregate market shares, etc but on **MARKET DYNAMICS**
- do not ignore **SMALL COMPETITORS**,

Monitor **CHANGES** in competitors market share

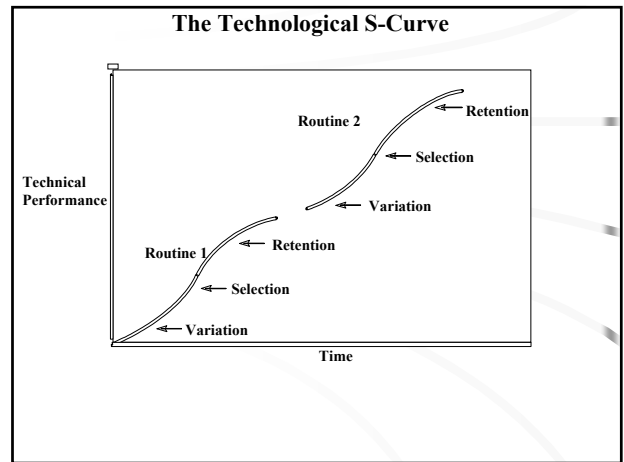
Check competitors' **R&D share**
Check competitors' **mind share**
Check competitors' **voice share**

Relationship Market-share analysis

		MAJOR RESSELLERS					Seller's Share
		A	B	C	D	E	
SELLERS	X	20%	20%	5%	0	5%	50%
	Y	20	0	5	5%	0	30%
	Z	10	0	0	5	5	20%
	Reseller's share	50%	20%	10%	10%	10%	100%
		A	B	C	D	E	Seller's Share
SELLERS	X	40%	0%	5%	0%	5%	50%
	Y	10	10	5	5	0	30%
	Z	0	10	0	5	5	20%
	Reseller's share	50%	20%	10%	10%	10%	100%

Track **CHANGES** in the **BALANCE OF POWER** between sellers and resellers

Check the
HISTORY of the
markets or
competition



Check how real is the
threat of new competitors
entering the markets

What prevents them
for entering the
market?

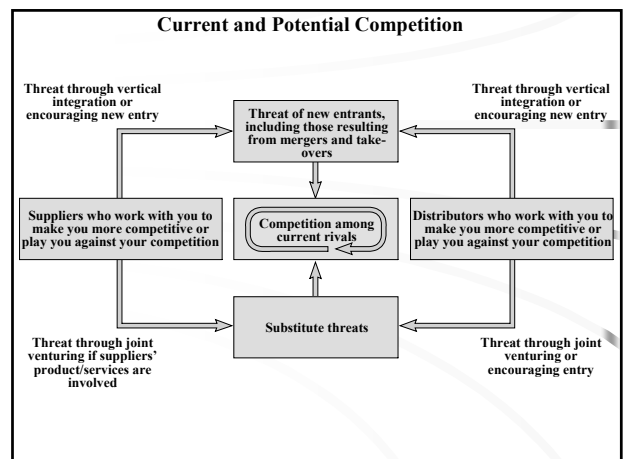
Threat of new competitors: types of barriers

- Economies of scale & scope in research -
- Economies of scale & scope in production
- Economies of scale & scope in distribution
- Locked in distribution channels-
- Advertising expenditure-
- Proprietary patents -
- Ownership of raw materials
- Location advantages
- Government regulations
- Customer switching costs-
- Brand franchises -
- Management Expertise -

Check for converging technologies
and merging markets

Check how real is the threat that
channels will **INTEGRATE**
vertically

Check competitors' merger and
take-over activity



Auditing Current Competitors

- Financial position
- Market position
- Product position
- Pricing
- Inbound logistics processes
- Production processes
- Outbound logistics processes
- Trade relations processes
- Advertising promotion processes
- Sales force processes

Categorising competitors

- Prospectors
- Analysers
- Defenders
- Reactors

Anticipating Competitor Behaviour

- **Understand its objectives and competitive thinking**
- **Study past behaviour of firm and executives involved**
- **What signals do they send? Are they credible?**
- **What game-playing rules exist in the industry?**
- **Think through the impact on trading relationships.**
- **Think about the technological and other innovation-imitation PATHS that are currently driving competition.**

Analysing Market channels

Objectives

To learn:

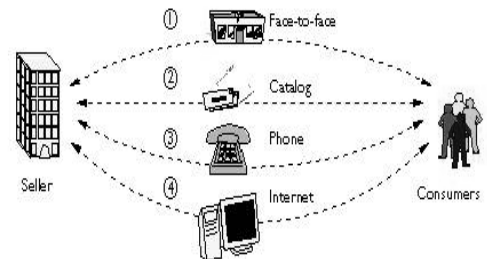
- what are the main trends in distribution channels
- what is the role of the internet
- what functions are performed by intermediaries
- how to audit intermediaries

Concentration of retailer's power

- 100 retailers in UK account for 70% of sales
- Food outlets as % of all outlets:
 - 62.3% in UK;
 - 30.1% France;
 - 19% Germany;
 - 33.4% Italy
- head of population per outlet:
 - 202 in UK,
 - 169 in France,
 - 196 Germany;
 - 91 Italy

1-1

The four channels



- Although online shopping more than doubled in size to an estimated **£1.4 billion**, this still represented less than **1%** of all retail sales, according to Verdict Research
- on-line shopping is unlikely to account for more than **1%** of the **\$2 trillion** retail sales in Europe the next decade

TABLE I. Estimates of the Size of the E-commerce Market

	1997	1998	1999	2000	2001	2002	2003
US Business-to-Consumer Electronic Commerce Sales Estimates (\$ bill.)							
Range	1.8-3.1	4.5-14.0	7.7-13.9	14.8-33.0	22.0-52.2	12.5-35.3	108.0
Average	2.7	8.6	12.1	21.1	29.4	27.5	108.0
Standard Deviation	0.8	2.9	4.1	7.2	12.8	13.0	
Number of Estimates	3	11	5	8	5	3	1
Percent of U.S. Retail Sales	0.0	0.4	0.6	1.0	1.3	1.2	4.4
US Business-to-Business Electronic Commerce Sales (\$ bill.)							
Range	5.6-7.0	33.9-48.0	138.6	66.5-213.9	328.6	268.0-470.3	541.4-2300.0
Average	6.3	41.0	138.6	143.4	328.6	369.2	1420.7
Standard Deviation	1.0	10.0		60.5		143.0	677.8
Number of Estimates	2	2	1	4	1	2	3

Source: ICSC, eMarketer, CyberDialogue, Robertson Stephens

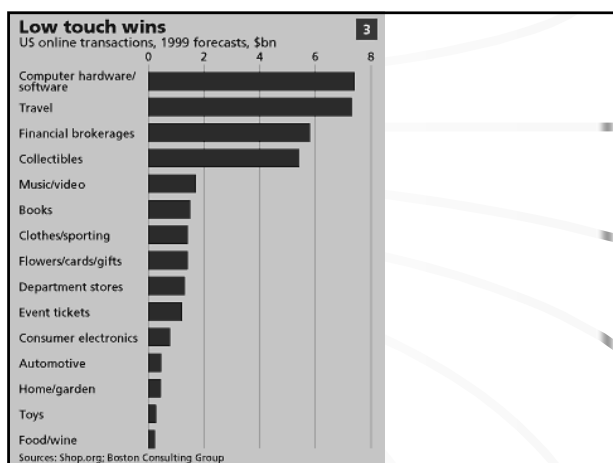
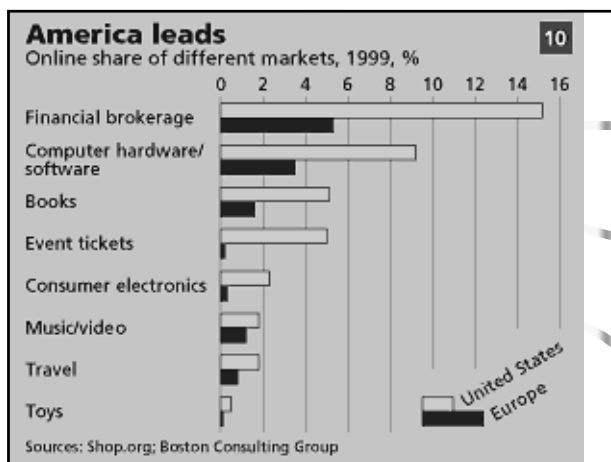
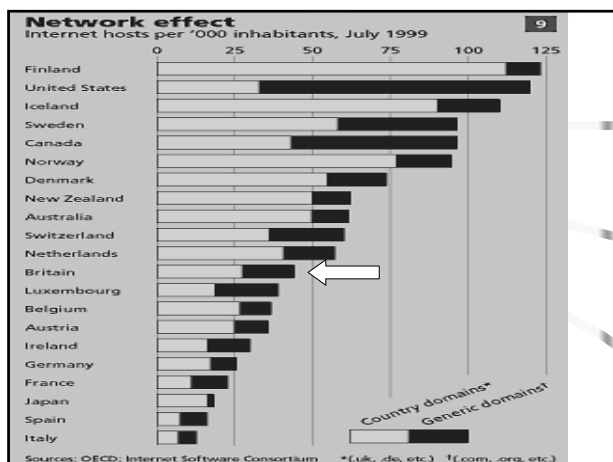
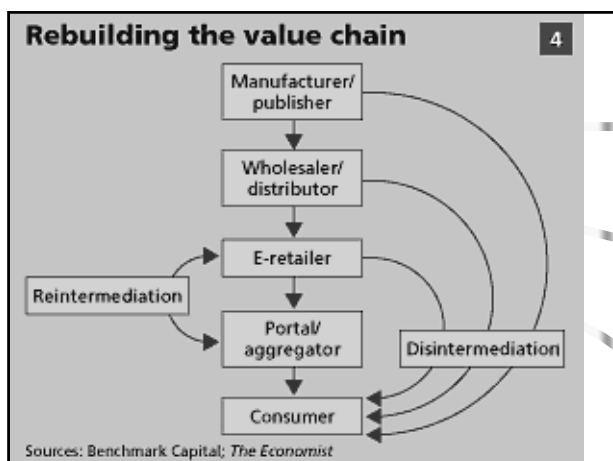


TABLE 4. Product E-Potential Matrix

Sample Product Category	Tactility Less Important	Generally Unpleasant	In-store Experience Important	Personal Nature High Margin	Cheap-to-Ship	Instant Gratification	Price Sensitive	Gift Oriented	Info-Intense	Score
Books	4			4	4	4	4	4	4	9/10
Sporting Goods	4	4		4	4	4	4	4	4	8/10
Toys		4	4	4	4	4	4	4	4	7/10
Computers	4	4	4		4	4	4	4	4	8/10
Apparel		4	4	4						3/10
Electronics	4	4				4	4		4	5/10
Jewelry			4	4				4		3/10
Grocery			4	4			4		4	4/10

Note: 4 implies vulnerability to e-competition



The e-commerce matrix

2

	Business	Consumer
Business	B2B GM/Ford EDI networks	B2C Amazon Dell
Consumer	C2B Priceline Accompany	C2C EBay QXL

Source: The Economist

The basic functions of channel members

- physical and psychological market positioning
- point of purchase promotion/displays
- transportation & storage
- customer training, education, after sales maintenance & repair services
- risk taking and financing
- market research

Channel marketing strategy ought to accomplish several objectives:

- Selecting target consumer segments with product needs consistent with the marketer's value proposition.
- Selecting channels that deliver desired consumer benefits and are compatible with the consumer needs segments.
- Configuring the value chain so that it
 - (1) leverages the components of greatest value to the consumer,
 - (2) assigns responsibility for delivery of each component to the participant (manufacturer, channel, etc.) most effective at delivering value to the consumer with an acceptable return to the manufacturer.

Who should undertake these activities? the channel member or the seller?

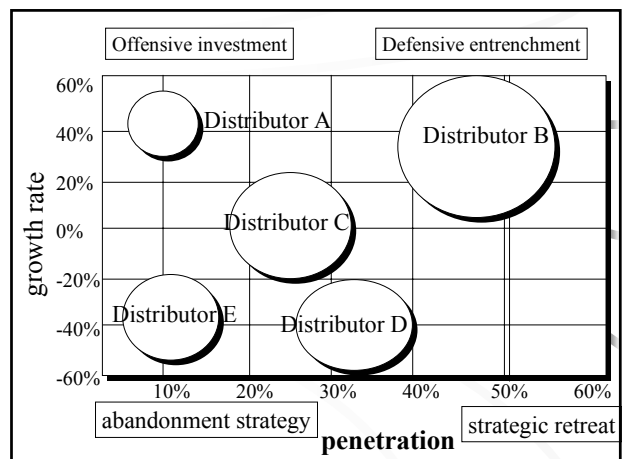
- competence
- cost
- control

Channel audit

- changes in technology
- new entrants
- changes in established trading relationships
- changes in the way existing members do business

Auditing individual resellers

- trading performance
- market positioning & served markets
- competitive selling effort
- purchasing behaviour



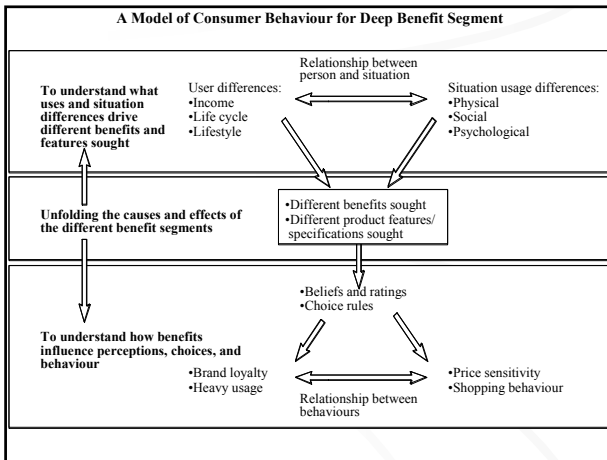
Analysing Customers

Objectives

To learn:

- what process to use to segment the market
- what is benefit segmentation

A Model of Consumer Behaviour for Deep Benefit Segment



Benefits Sought Physical/bodily benefits

Health
Physical fitness
Beauty
Procreation
Sex
Safety
Thirst
Hunger
Mobility
Sleep

Sample of Products

Vitamins, new drugs
trainers, treadmills
Cosmetics, jewellery
Artificial insemination
Spouses, blue movies
Seat belts, security systems
Non-alcoholic beverages
Food
Automobiles, aeroplanes
Bedding, drugs

Emotional benefits

Love
Friendship
Pleasure
Humour
Aggression
Power

Flowers, gifts
Social clubs, cards
Music, drugs, food
Comics, television
Karate classes, football
Investments, private schools

Benefits Sought

Mental/intellectual benefits

Curiosity
Problem solving
Education
Control
Creativity
Truth

Sample of Products

Tourism, books
Games, detective stories
College, TV documentaries
Yoga classes, religious items
Artwork, gardening tools
Non-fiction books

Spiritual benefits

Peace
Communnality
Philosophy
Patriotism
Ritual
Guilt

Meditation tapes, vacations
Club memberships, trendy items
Books, Internet
Flags, political items
Christmas decorations, engagement rings
Gifts, religious items

STAGE

PRIORITIES MAJOR PURCHASES

Fledgling teens and early 20s Self, socialising, education

Appearance products, clothing, automobiles, recreation, hobbies, travel

Courting: 20s Self and other, pair bonding, career

Furniture and furnishings, entertainment and entertaining, clothing

Nest building: 20s and early 30s Babies and career

Home, garden, do-it-yourself items; baby-care products; insurance

Full nest: 30-50s Children and others, career, midlife crisis

Children's food, clothing, education, transportation, orthodontics, career and life counselling

Empty nest: 50-75 Self and Others, Relaxation

hobbies, luxury automobiles, boats, investments

Sole survivor: 70-90 Self, health, loneliness

Health-care services; diet, security, and comfort

Lifestyle

- **An individual pattern of living as exhibited in a person's activities, interests, and opinions (AIOs).**

Some Typical AIOs Inventory Questions

– Activity Questions:

- In what outdoor sports do you participate at least once a week?
- How many books do you read each year?
- How often do you visit shopping centres?
- To how many clubs do you belong?

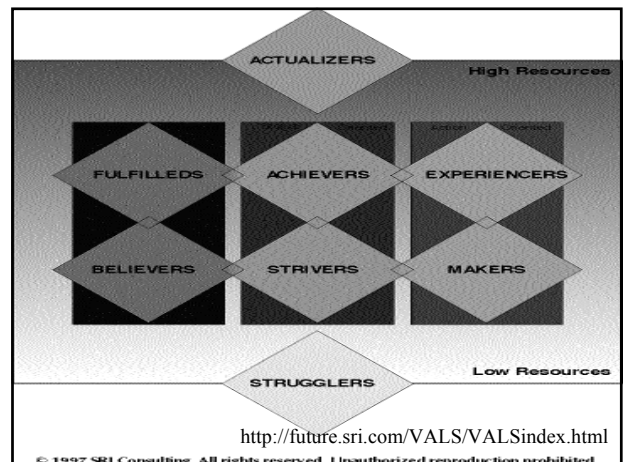
– Interests Questions:

- In which of the following are you most interested-sports, church, or work?
- How important is it to you to try new foods?
- How important is it to you to get ahead in life?

Examples of Questions in AIOs Inventories

– Opinions

- **Women should have free choice regarding abortion**
- **Educators are paid too much money**
- **We must be prepared for nuclear war**
- **The death penalty should be reinstated in all countries**



Nonuser of Product Category

- Unaware of product/service
- Aware but has never seriously considered purchase
- Aware but product/service is unavailable in channels
- Aware but habit and inertia prevent trial
- Aware but a perceived risk prevents trial
- Aware but rejected because of believed poor performance
- Aware but rejected because of high price
- Tried and rejected because of poor performance
- Tried and rejected because of low value for money
- Previously used but no longer needed

Product User but Non-brand User

- Unaware of brand
- Aware but has never seriously considered purchase
- Aware but brand is unavailable in channels
- Aware but habit and inertia prevent trial
- Aware but a perceived risk prevents trial
- Aware but rejected because of believed poor performance
- Aware but rejected because of high price
- Tried and rejected because of poor performance
- Tried and rejected because of low value for money

Choice rule segmentation

- Logical choice behaviour
- Experiential choice behaviour
- Habitual choice behaviour

Types of Loyalty

- Emotional loyalty
- Identity loyalty
- Differentiated loyalty
- Contract loyalty
- Switching cost loyalty
- Familiarity loyalty
- Convenience loyalty

Consumer search behaviour & shopping segmentation

- complex search and shopping behaviour
- recreational shopping
- media use

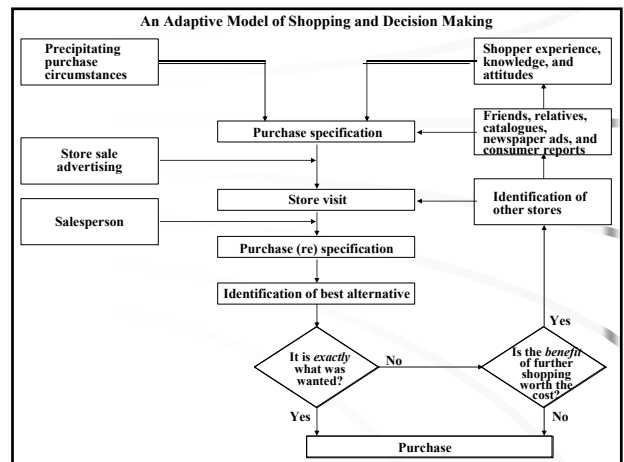


TABLE I. Goal-Oriented and Experiential Factors and Outcomes of Online Shopping

	Important Factors	Outcome Desired
Goal-Directed Shopping	• Accessibility/Convenience • Selection • Information Availability • Lack of Sociality	• Freedom, Control • Commitment to Goal, Not Experience
Experiential Shopping	• Involvement with Product Class • Positive Sociality • Positive Surprise • Bargain Hunting	• Fun • Commitment to Experience as Important or More Important than Goal

Frequency of use of Consumer segmentation variables

- Demographics
 - choice of sales regions
 - estimating segment size
 - choice of local distribution channels that cater different ages, income & education groups
 - choice of media that serve different age, income
- Usage situation
 - product performance specifications
 - delivery service
 - advertising themes
 - brochure designs
 - written & video usage instructions

Frequency of use of Consumer segmentation variables

- Benefits sought
 - different models with different features
 - different advertising messages
 - sales training
- Beliefs
 - new offerings that solve previous problem
 - campaigns that raise awareness
 - campaign that change image positioning
- Heavy product usage
 - special (size quality) products
 - special services
 - promotional programs, financial terms

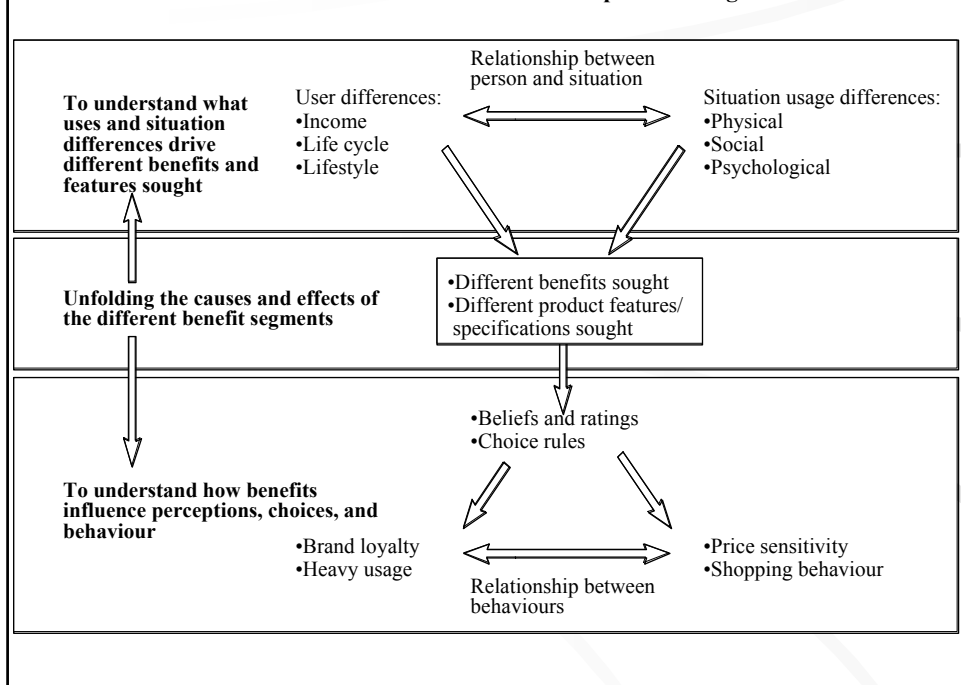
Frequency of use of Consumer segmentation variables

- Channel loyalty
 - choice of distributors
 - different product mix for different distribution channels
- Heavy media use
 - promotion tailored to media
 - media buying
 - message tailored to media

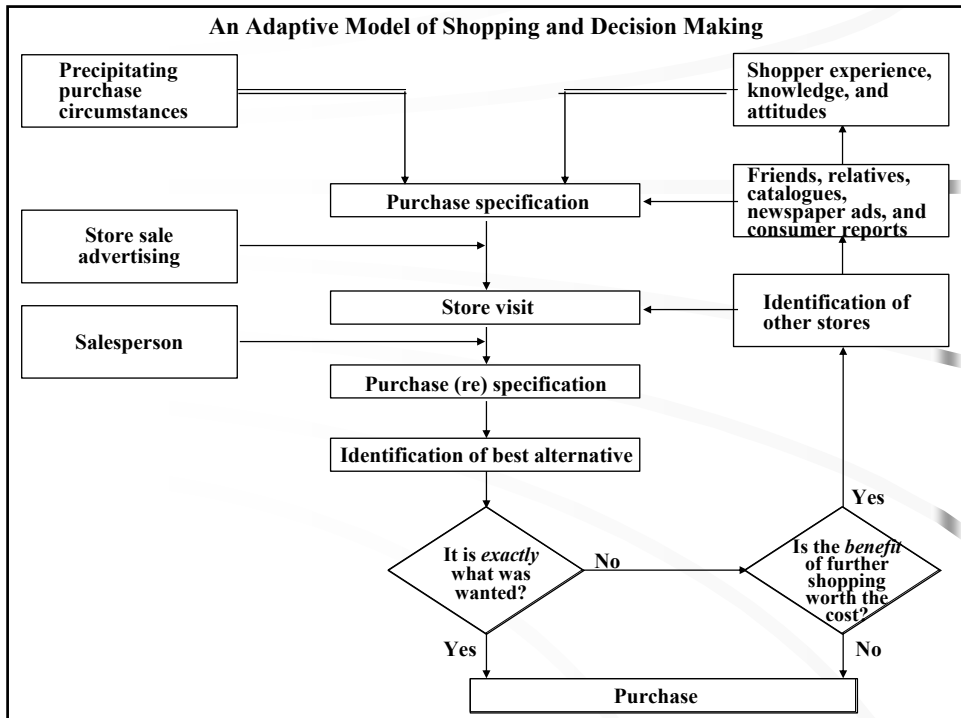
Limits of market segmentation

- it can be more costly
- difficult to control many segments
- segment migration or dynamic change problems

A Model of Consumer Behaviour for Deep Benefit Segment



An Adaptive Model of Shopping and Decision Making



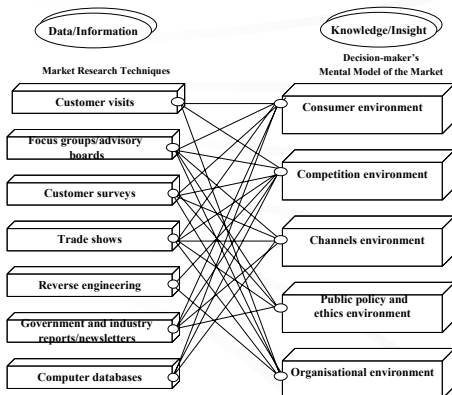
Market Intelligence

Objectives

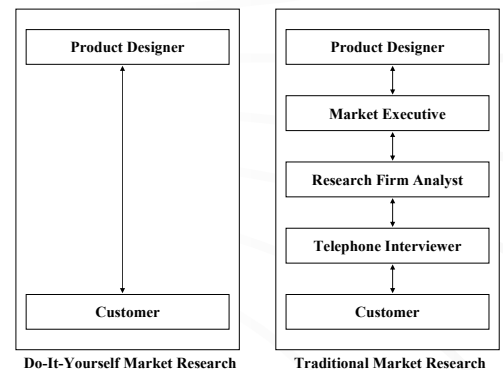
To understand:

- how managers decide which information gathering techniques to employ ?
- how firms use market intelligence?

How Gathered Market Information is Used



Getting Closer to the Customer



Research methods

- Competitor annual reports
- Government industry reports
- Computer databases and Scanning Services
- Focus groups
- Surveys
- Trade shows
- Reverse engineering

Basic Market research process

1. Problem recognition
2. Meet and Define problem & Determine how to solve it
3. Search Secondary and Syndicated data sources
4. Undertake Quick and Dirty Primary Research
5. Undertake thorough primary research
6. Analyse Information
7. Present findings

Intelligence gathering in hypercompetitive markets

- CFT **continuously** in touch with and VISITING lead customers and suppliers
- more use of QUALITATIVE and observational research by CFT
- more effort to find and keep resident engineers that can quickly REVERSE ENGINEER new competitor products
- MORE USE of sale, distributor and foreign subsidiary market intelligence, MORE REWARDING to intelligence generators

Intelligence gathering in hypercompetitive markets

- use of INTERNET industry newsletter, industry gossip networks and industry clipping services
- more use of CONTINUOUS TRACKING buyer behaviour, trade inventories and customer satisfaction services
- development of market DISSATISFACTION MARKET RESEARCH process that tracks and quickly follows up queries, complaints, returns and guarantee claims
- use of SMALL NUMBER of market research suppliers to run tracking surveys, regular use of focus groups and quick telephone and mall-intercept surveys

What factors discourage the best use of information?

- MYOPIC SHORT TERM perspective confine research
- information that CHALLENGES CONVENTIONAL WISDOM, beliefs and mental models may threatens the credibility and intuition of Senior mgmt
- fear of listening to "FICKLE" consumer tastes rather than by its own radical innovations
- research is enacted at the last minute TO JUSTIFY decisions already taken
- in bureaucratic organisation is used TO FRUSTRATE OR DELAY decision making rather than to improve it
- use of JARGON and mind-mumbling complexity

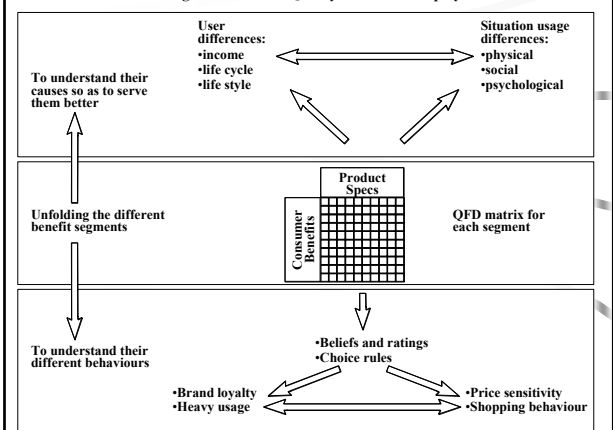
Positioning Strategy

Objectives

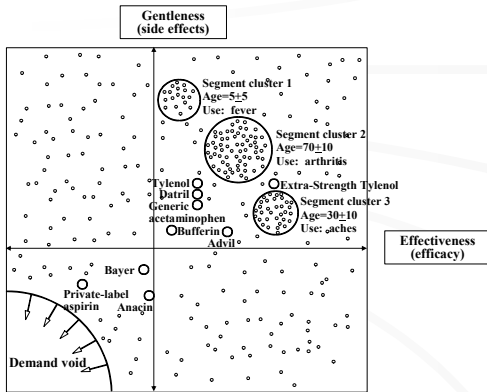
To learn

- how to develop a positioning strategy
- how to turn a positioning concept into a real product

Benefit Segmentation and Quality Functional Deployment



An Intuitive Map of the Analgesic Market



- Which product attributes should you use in positioning maps?
- How to turn product attribute perceptions into engineered products?

Quality Function Deployment (QFD) converts a positioning concept into an engineered product

	Product Specifications	Quality added				
		Pencil length (inch)	Time between sharpenings	Lead dust (partcls/line)	Hexagonality (%)	Importance ratings
Consumer benefits	Easy to hold	○			○	3
	Does not smear		○	△		4
	Point lasts		△	○		5
	Does not roll				△	2
						3
Benchmarks	Whitesharp (now)	5	56	10	70	3
	Competitor X (now)	5	84	12	80	4
	Competitor Y (now)	4	41	10	60	3
	Whitesharp (new)	5.5	100	6	80	5

Quality Added Analysis OR economic value analysis

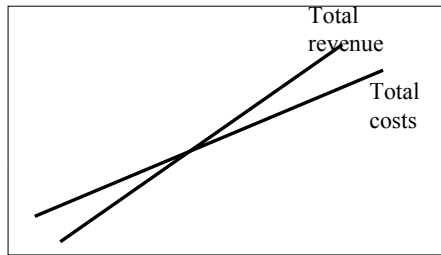
- the extra price the target market is prepared to pay to for added quality.

Feasibility Analysis

- A feasible position is a differentiation position that can be made into a product (using QFD) and sold at a price (using QA analysis) such that the required sales to meet the financial goals are feasible.

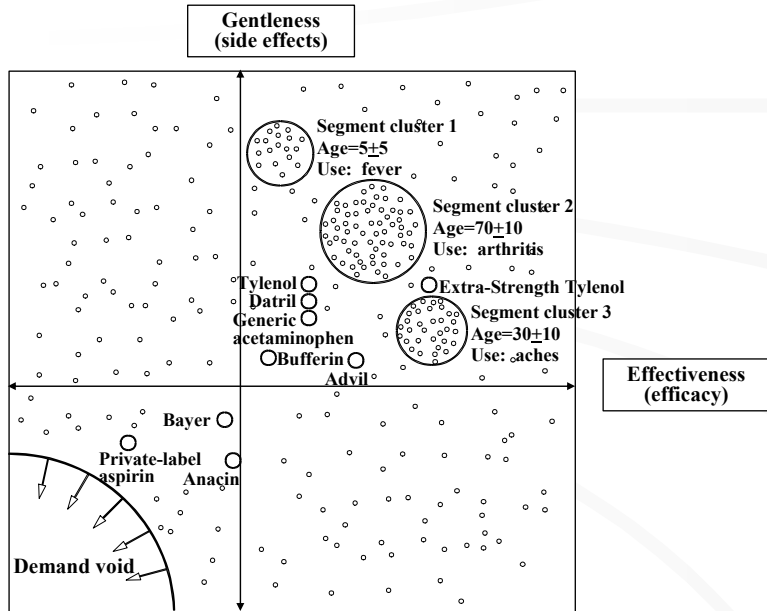
Feasibility Analysis (break-even analysis)

Revenues/cost
£000s



Sales Volume

An Intuitive Map of the Analgesic Market



		Product Specifications				Quality added				
		Pencil length (inch)	Time between sharpenings	Lead dust (parts/line)	Hexagonality (%)	Importance ratings	Whitesharp (now)	Competitor X (now)	Competitor Y (now)	Whitesharp (new)
Benchmarks	Consumer benefits	Easy to hold	○		○	3	4	3	3	4
		Does not smear		○	△	4	5	4	5	5
		Point lasts		△	○	5	4	5	3	5
		Does not roll			△	2	3	3	3	4
		Whitesharp (now)	5	56	10	70				
		Competitor X (now)	5	84	12	80				
		Competitor Y (now)	4	41	10	60				
		Whitesharp (new)	5.5	100	6	80				

- Some correlation
△ Strong correlation

Branding

- What is brand equity?
- To learn how to build strong brands
- To learn how to reinforce and revitalise brands

- Brand equity is the differential effect of brand knowledge on consumer response to the marketing of the brand.

High-Technology Brands: Misconceptions Versus Realities

MISCONCEPTIONS

Technology products are bought on the basis of the price-performance ratio, period.

High switching costs associated with a large installed base are the key to profitability.

Brand management is used when product differentiation is difficult or impossible.

Branding is something the marketing department does, and as such, it means advertising, trade shows, and sales literature. The results are hard to measure.

REALITIES

Price and performance are important, but other factors may also be highly influential. Additionally, the people involved in purchase decisions may weigh various performance factors differently.

True for a while, but customers don't like to feel trapped, and competitors are dedicated to offering seamless transitions, along with better performance and functionality.

By then it's too late. A brand's promise of value is the core element of differentiation, not an alternative to it.

The promise of value must be reflected in every aspect of the complete product offering in tangible and measurable ways. Even psychological rewards among brand users, like trust, can be measured and related to business performance.

How High-Tech Brands Build Equity

To build a strong high-tech brand, managers need to answer the following questions:

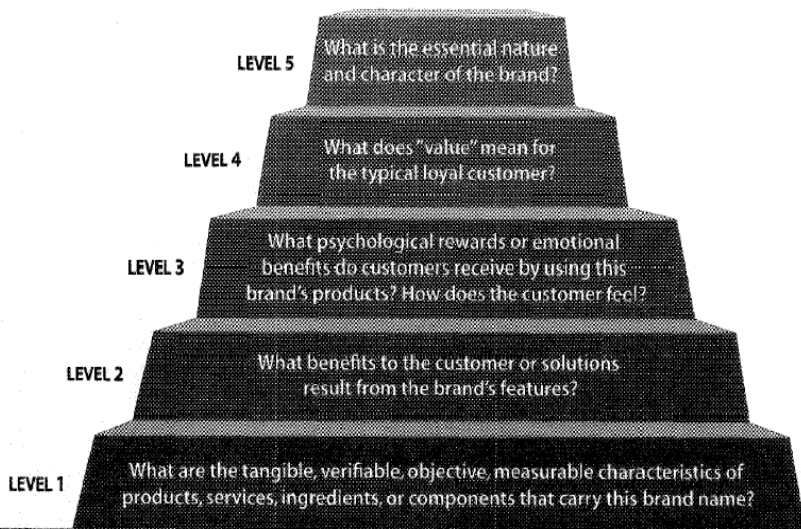


EXHIBIT 1

Customer-based brand equity pyramid

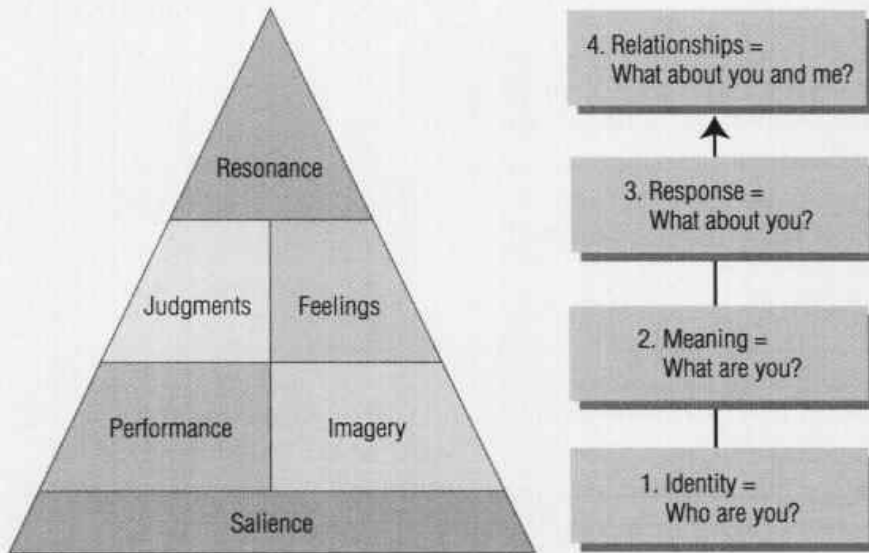


EXHIBIT 2

Sub-dimensions of brand-building blocks

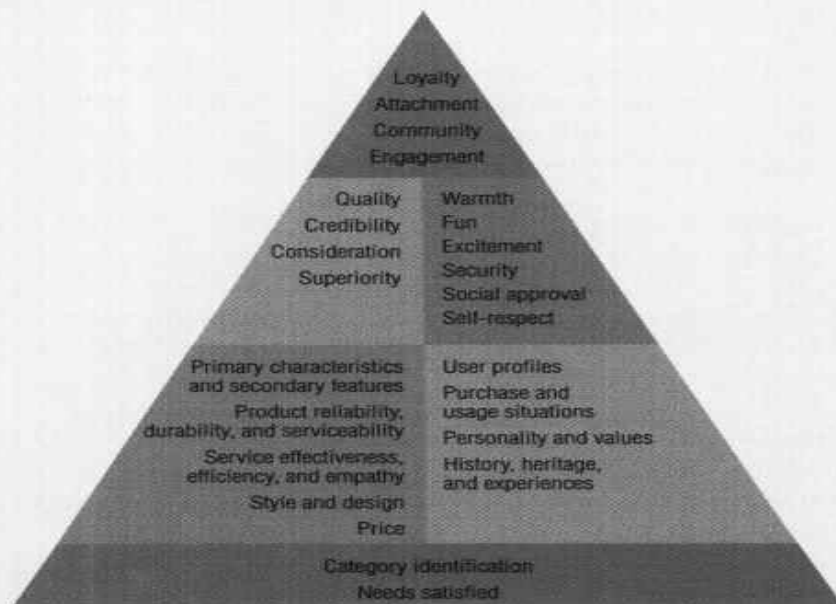
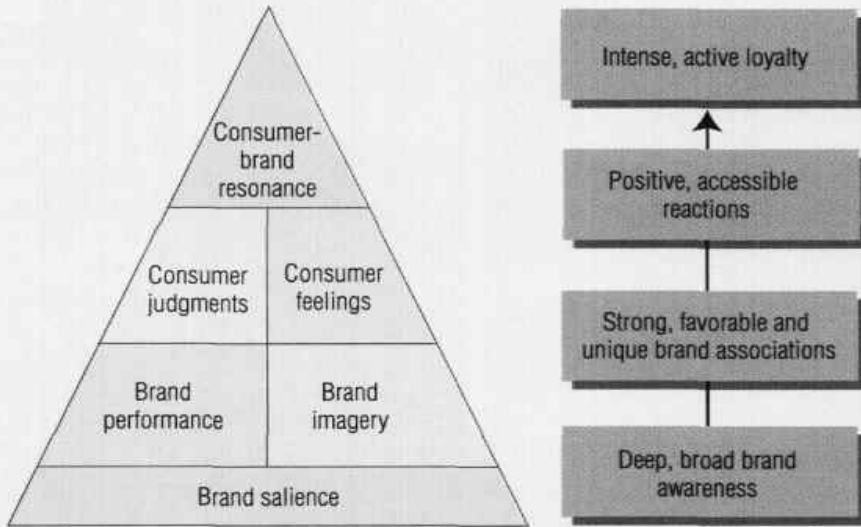
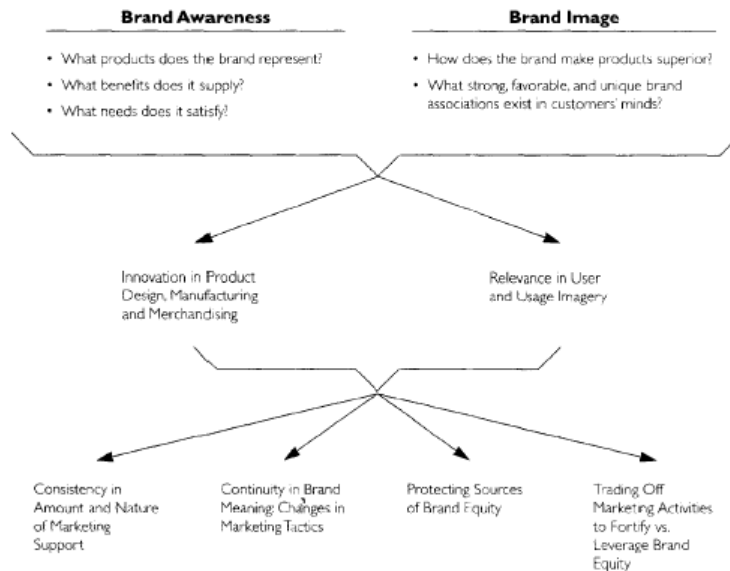


EXHIBIT 3

Customer-based brand equity pyramid



Brand Reinforcement Strategies



TORMENT YOUR CUSTOMERS *(They'll Love It)*

by Stephen Brown

DON'T GET ME WRONG: I have nothing against customers. Some of my best friends are customers. Customers are a good thing, by and large, provided they're kept well downwind.

My problem is with the concept of – and I shudder to write the term – “customer centricity.” Everyone in business today seems to take it as a God-given truth that companies were put on this earth for one purpose alone: to pander to customers. Marketers spend all their time slavishly tracking the needs of buyers, then meticulously crafting products and pitches to satisfy them. If corporate functions were Dickens characters, marketing would be Uriah Heep: unctuous, ubiquitous, unbearable.

My friends, it's gone too far.

The truth is, customers don't know what they want. They never have. They never will. The wretches don't even know what they *don't* want, as the success of countless rejected-by-focus-groups products, from the Chrysler minivan to the Sony Walkman, readily attests. A mindless devotion to customers means me-too products, copycat advertising campaigns, and marketplace stagnation.

And customers don't really want to be catered to, anyway. I've spent most of my career studying marketing campaigns, and my research shows that many of the marketing coups of recent years have been far from customer centric. Or at least, the successes have proceeded from a deeper understanding of what people want than would ever emerge from the bowels of a data mine. Whatever people may desire of their products and services, they adamantly do not want kowtowing from the companies

Retromarketing eschews the modern marketing proposition by deliberately holding back supplies. You want it? Can't have it.
Try again later, pal.

that market to them. They do not want us to prostrate ourselves in front of them and promise to love them, till death us do part. They'd much rather be teased, tantalized, and tormented by deliciously insatiable desire.

It's time to get back to an earlier marketing era, to the time when marketers ruled the world with creativity and style. It's time to break out the snake oil again. It's time for retromarketing.

Retro Shock

Retromarketing is based on an eternal truth: Marketers, like maidens, get more by playing hard to get. That's the antithesis of what passes for modern marketing. These days, marketers aim to make life simple for the consumer by getting goods to market in a timely and efficient manner, so that they are available when and where they're wanted, at a price people are prepared to pay. Could anything be more boring? By contrast, retromarketing makes 'em work for it, by limiting availability, by delaying gratification, by heightening expectations, by fostering an enigmatic air of unattainability. It doesn't serve demand; it creates it.

As marketing strategies go, "Don't call us, we'll call you" is about as far from today's customer-hugging norm as it is possible to imagine. But it suits the times. We are, after all, in the midst of a full-blown nostalgia boom, a fact not

Stephen Brown is a professor of marketing research at the University of Ulster in Northern Ireland and a visiting professor of marketing at Northwestern University's Kellogg School of Management in Evanston, Illinois. He has written 12 books on marketing, the latest of which is *Marketing: The Retro Revolution* (Sage, 2001).

lost on most successful product designers and advertisers. Retro is everywhere, whether it be Camel Lite's series of pseudonostalgic posters (a leather-helmeted flying ace lights up with a Zippo); Keds's television commercial for its old-style sneakers (reengineered, naturally, for today's demanding consumers); the McDonald's rollout of retro-fitted diners (which offer table service and 1950s favorites like mashed potatoes and gravy); Disney's Celebration, a new olde town in Florida, just like the ones that never existed (outside of Hollywood studio back lots);

or Restoration Hardware, a nationwide retail chain selling updated replicas of old-fashioned fixtures, fittings, and furnishings (perfect for redecorating that Rockwellian colonial in Celebration). Retro chic is de rigueur in everything from cameras, coffepots, and radios to toasters, telephones, and refrigerators. Retro roller coasters, steam trains, airships, motorbikes, and ballparks are proliferating, as are reproductions of sports equipment from earlier

days. Tiki bars are back; polyester jumpsuits are cavorting on the catwalks; shag carpet is getting laid in the most tasteful abodes; and retro autos, such as the PT Cruiser and the new T-Bird, are turning heads all around the country. It's reached the point, comedian George Carlin says, where we don't experience déjà vu, but vujà dé—those rare moments when we have an uncanny sense that what we're experiencing has *never happened before*.

People aren't just suckers for old-fashioned goods and services, they also yearn for the marketing of times gone by. They actually miss the days when a transaction was just a transaction, when purchasing a bar of soap didn't mean entering into a lifetime value relationship. Wary of CRM-inspired tactics, which are tantamount to stalking, they appreciate the true transparency of a blatant huckster. Retromarketing recognizes that today's consumer is nothing if not marketing savvy. Call it postmodern, but people enjoy the ironic art of a well-crafted sales pitch. The best of retromarketing hits consumers with the hardest of sells, all the while letting them in on the joke.

Going Retro

Just like retrostyling, retromarketing is more art than science. It's easy to hit a false note. But can its lessons be spelled out? Is there an ABC for wannabes? They can, and there is. And although arrogant academicians always advocate acronyms, aphorisms, apothegms, and absurdly affected alliterations—to ensure ever-busy executives *get it*—retromarketing represents a rare renunciation of this ridiculous rhetorical rule. There are just five basic principles.

The first is that customers crave *exclusivity*. Retromarketing eschews the "here it is, come and get it, there's

plenty for everyone" proposition—the modern marketing proposition—by deliberately holding back supplies and delaying gratification. You want it? Can't have it. Try again later, pal.

Granted, "Get it now while supplies last" is one of the oldest arrows in the marketing quiver. But it is no less effective for all that. First, exclusivity helps you avoid excess inventory—you don't make it until the customer begs for it. Second, it allows buyers to luxuriate in the belief that they are the lucky ones, the select few, the discerning elite. Promoting exclusivity is standard practice in the motor industry, as would-be buyers of Miatas, Harleys, and Honda Odysseys will readily testify. It's employed by De Beers for diamonds and Disney for videos. It's used by everyone from Wall Street brokers, with an IPO to pass off, to the chocolate conspirators at Cadbury, whose creme eggs are strictly rationed and highly seasonal. Indeed, it has launched countless one-day, 13-hour, blue-light, everything-must-go sales in retail stores the world over, and doubtless it will continue to do so.

Ty Warner, impresario of toy maker Ty Incorporated, may well go down in history for his ceaselessly inventive exploitation of exclusivity. To be sure, his velveteen storm troopers—the famous Beanie Babies—looked like undernourished attendees at the teddy bears' picnic. Nevertheless, their retromarketing campaign put Sun Tzu's *The Art of War* to shame. By coupling limited production runs with ruthless "retirements," Warner ensured that Beanie Babies remained in enormous demand and fostered a now-or-never mind-set among consumers and retailers.

Ostensibly priced at five or six bucks apiece, Beanies fetched upwards of three grand at auction and were known to trigger fistfights among frenzied I-spotted-it-first fans. They were sold through a plethora of small-time gift shops, bypassing major retail chains, whose EDI-driven ethos of regular supplies, no surprises, and guaranteed delivery times was anathema to Warner. Consistently inconsistent, he supplied what he wanted, when he wanted, to whomsoever he wanted, and if the retailers didn't like it, then they simply did without. When added to the constant introductions and retirements of models, the upshot was that Warner's wares were scattered hither and yon. Reason didn't enter into it, let alone rhyme. The tush-tagged creatures could thus be discovered in the most out-of-the-way outlets, which added to rather than detracted from Beanies' pseudonostalgic appeal. Fuelled, furthermore, by a massive word-of-mouth rumor mill, as well as an enormous secondary market in collectibles, Ty Warner turned the ultimate trick of making brand-new, mass-produced toys into semiprecious "antiques."

"Expect the unexpected" was Ty's rallying cry, and most would agree that capricious production, idiosyncratic distribution, eccentric promotion, and haphazard pricing are somewhat unusual in a modern marketing world



of Analysis, Planning, Implementation, and Control. However, it is very much in keeping with a premodern milieu of restricted supply, excess demand, and multifarious channels of distribution. As Warner sagely observed, "As long as kids keep fighting over the products and retailers are angry at us because they cannot get enough, I think those are good signs." Indeed, the fighting would have continued had Warner not ultimately betrayed his own best retromarketing instincts. After deciding to terminate Beanie Babies en masse in December 1999, he was persuaded by an on-line plebiscite to grant a soft-toy stay of execution. Collectors were not amused, and Warner's iconic standing suffered irreparable damage.

Happily, right on Ty's heels came another tour de force of customer torment from the master marketers behind today's greatest mania: Harry Potter. Not only is J.K. Rowling's remarkable creation the perfect retro product—a twenty-first-century Tom Brown—but the wonderful wizard of Hogwarts has been marketed in an unashamedly retro manner. Scholastic's campaign for the blockbuster *Harry Potter and the Goblet of Fire* is a sterling example of the second principle of retromarketing: *secrecy*. It consisted of a complete blackout on advance information. The book's title, pagination, and price were kept under wraps until two weeks before publication. Review copies were withheld, no author interviews were allowed, and foreign translations were deferred for fear of injudicious leaks. Juicy plot details, including the death

TIME FOR A NEW MOTOWN REVIVAL

Of all industries, the automotive business is most responsible for perfecting the art of retro. It invented the Joe Isuzu-style salesman and has been quick to tap into nostalgic yearnings in its new model designs and advertising. How sad, then, to see the industry suppressing its true nature and embracing customer centrality as its marketing approach.

Just consider its retro credentials. The Mazda Miata, an homage to 1950s roadsters, which comes complete with a carefully pitched tailpipe note, was the first retro auto rollout. Its triumph in the marketplace set the entire motor industry on the road to yesterville. Fast followers include the Chrysler PT Cruiser, a pastiche of the upright sedans of the 1940s; the Jaguar S-Type, an affectionate nod to the style of the immortal

Mark II, beloved by British police officers and their criminal counterparts; and, best of all, the New Beetle, which melds the distinctive shape of the old Beetle with



the latest automotive technology to produce a modern car with anachronistic styling. Not to be outdone, the retro auto prototype, Mazda's Miata, recently celebrated its decade-long heritage with a tenth anniversary special edition, thus making it a neo retro auto.

Yet despite the success of the retro products, the automobile industry hasn't fully embraced retromarketing. For every old-style publicity stunt, there are dozens of oleaginous allusions to market responsiveness, customer care, and our duty is to serve. Saturn says it all.

Auto marketers are unnecessarily ashamed of their Artful Dodger antecedents. They try to hide inveigling away, to disguise their deceitful DNA, only to suffer from the return of retromarketing repressed. It's time

for the madness to end.

The return of Joe Isuzu is a start, but the therapy must go deeper. It's time, carmakers, to get in touch with your inner huckster.

from grocery stores to roadside restaurants. No one complained, of course, because everyone had managed to get their hands on the precious Potter, and by the time they'd finished reading the magical mystery, they'd forgotten its magically mysterious marketing campaign. Now you see it, now you don't.

Whereas modern marketing is upfront, above board, and transparent, retro revels in mystery, intrigue, and covert operations. Consider the classic "secret" recipes that have helped to purvey all sorts of comestibles—Coca-Cola, Heinz Ketchup, Kentucky Fried Chicken, Mrs. Fields Cookies, the list goes on—to say nothing of cosmetics (the secret of youthfulness), proprietary medicines (the secret of good health), and holiday packages (secret hideaways a specialty). If it engages the customer in even just a moment of consideration of the product—"What could it be?" or simply, "Why is it so hush-hush?"—secrecy helps to sell.

But what, you may well ask, is the secret of successful secrecy? Obviously, it's that

of a key character and Harry's sexual awakening, were drip fed to a slavering press corps prior to the launch. Printers and distributors were required to sign strict confidentiality agreements. Booksellers were bound by a ruthlessly policed embargo, though some were allowed to display the tantalizing volume in locked cages for a brief period just before "Harry Potter Day," July 8, 2000. And in a stroke of retro genius, several advance copies were "accidentally" sold from an unnamed Wal-Mart in deepest West Virginia, though one of the "lucky" children was miraculously tracked down by the world's press and splashed across every front page worth its salt.

More sadistic still, Scholastic dropped less-than-subtle hints that there weren't enough copies of the book to go around, thereby exacerbating the gotta-get-it frenzy of fans and distributors alike. In the event, the tome was ubiquitously unavoidable, available everywhere

the existence of a secret must never be kept secret. There's no point in having an exclusive product or service unless everyone who is anyone knows about it. But when big-budget marketing campaigns are unaffordable or inappropriate, what's a brand to do? The answer, and the third principle of retromarketing, is to *amplify*—that is, to ensure that the hot ticket or cool item is talked about and, more important, that the talking about is talked about.

The power of amplification can be seen in the recent buzz about "Ginger," the mysterious and much-talked-about creation by Dean Kamen. Widely regarded as the heir apparent to Thomas Edison, Kamen is a throwback to the amateur inventor archetype, a garage-based, gizmo-surrounded, patent-collecting tinkerer. He made his name—and his millions—with a portable insulin pump, a suitcase-sized dialysis machine, and, most recently, a gyroscopic, stair-climbing wheelchair. And now he has

created Ginger, the code name for what is allegedly the greatest invention since the sliced bread cliché. The Net-propelled speculation surrounding the invention, known simply as "IT," has been overwhelming. Starved for actual information about the invention, the media has scrambled to report on the reports of the media. In the process, Ginger's become famous for being famous, as historian Daniel Boorstin famously put it—and marketed for being unmarketed. To date, no one knows what IT is exactly, and the seer's not saying. All we know for certain is that IT is so revolutionary that entire cities will be retrofitted to accommodate IT. Seal off those sidewalks. Rip up those autoroutes. Tear down those tollbooths. Ginger's coming down the turnpike, powered by a perpetual-motion motor that runs on hot air and hyperbole. Surprisingly, no one seems to have noticed the echoes in this craze of a classic P.T. Barnum marketing caper of 1860. Barnum's "it" turned out to be an encephalitic giantess from New Jersey; Kamen, it seems, simply plans to encephalize the New Jersey expressways. Clearly, they're being born at more than one a minute these days.

In a world of incessant commercial chatter, amplification is vitally necessary, and it can be induced in many ways beyond just mystery. One of the most cost-effective techniques is affront. Whether it be Calvin Klein, Benetton, or even Citroën—its Picasso minivan tweaked French aesthetes by appropriating the master's moniker—there's nothing like a little outrage to attract attention and turn a tiny advertising spend into a megabudget monster. Better yet, it bestows an aura of attractive insouciance on the I-fought-the-law offenders.

Another powerful amplifier is surprise. An unexpected marketing campaign can send shock waves through the media—as when Pizza Hut paid to have its logo placed on the side of a Russian rocket, or when Taco Bell offered a free taco to everyone in the United States if the decommissioned Mir managed to hit a 40-by-40-foot floating target placed at the anticipated splashdown site.

So much the better if all this marketing is *entertaining*, which brings us to principle number four of retromarketing: Marketing must divert. It must engage. It must amuse. Entertainment, in many ways, is the essence of retromarketing—and the lack of it is modern marketing's greatest failure.

I blame my esteemed colleague Philip Kotler, the renowned Northwestern University marketing professor, for this sorry state of affairs. He, more than anyone, has convinced managers that marketing is the backbone of business and must integrate the work of all other functions. Weighed down by this awesome responsibility, marketing has become a sober-sided discipline. It has lost its sense of fun. It has forgotten how to flirt.

The marketers of Hollywood, not surprisingly, have been resolute holdouts—not least in their latter-day use of

the Internet. The Web site to promote the recent remake of *Planet of the Apes*, for example, contains an elaborate treasure hunt. *Swordfish's* site offers a \$100,000 prize to anyone who can crack ten passwords. Most ambitious of all is the Web-based promotion of Steven Spielberg's *AI*, which premiered in June 2001. It's a surreptitious campaign, designed to be discovered and passed on from one cool person to another. Like the old record producer's trick of planting hidden messages between tracks (remember "I buried Paul"?), the process begins with a fake name inserted into the credits of a trailer for the movie. A Web search on that name leads the curious to a series of planted Web sites, a discovery of a murder, and a growing body of clues. Before long, cryptic e-mails and spooky phone messages come into play—and those who have followed the thread to that point are embroiled in a story quite separate from the film. Clearly, the marketers involved—highly aware that a movie lives or dies on its first two weeks of word of mouth—engineered a way to generate that buzz just before *AI* premiered. And it's more creative than concocting fake columnists or planting vox-pop puffery.

The *AI* campaign also exemplifies the final principle of retromarketing: marketing must deal in *tricksterism*, using tactics akin to those of Loki (of Norse myth), the wily Coyote (of Native American legend), and Hermes (the Greek god of the marketplace). The tricks don't have to be particularly elaborate; on the contrary, tricks can come cheap, as the now classic *Blair Witch Project*—is it a snuff movie or not?—bears eloquent witness. Similarly, the recent turn to sneaky sales promotions, where, for instance, the gregarious, round-buying barfly in the way-cool club is actually an employee of a liquor company,

There's nothing like a little outrage to attract attention and turn a tiny advertising spend into a megabudget monster.

involves minimal expenditure on the marketer's part. However, the rewards can be great if the brand is embraced, even briefly, by the in-crowd.

A particularly sly bit of tricksterism was served up by the makers of Tango, a fruit juice soda popular in the United Kingdom. In 1994, the company bought advertising time and used it for what appeared to be a public service announcement; its "marketing director" warned viewers that some rogue supermarkets and convenience stores were selling a knockoff of the brand—it could be detected because it was not fizzy—and asked them to report

the miscreant outlets by calling a special, toll-free hot line. Apparently, some 30,000 people rang up, only to be informed that they had been tricked ("Tango'd") as part of the company's promotion for a new, noncarbonated version of the drink. The ITC—Britain's TV-advertising watchdog—was not amused, and it rapped Tango's knuckles for abusing the public-information service format. In the meantime, the promotion had succeeded in amplifying the product launch and adding to Tango's incorrigibly irreverent image.

Being a trickster is not the same as being a downright cheater. Cheating, to state the obvious, is wrong, and people won't stand for it. The charlatanry I'm advocating

Marketing managers have fallen for their own line.
They actually believe that if you love the customer
enough, the customer will love you back.
That is complete nonsense.

comes with an extra dimension of panache, of exaggeration, of sheer chutzpah, which renders the unacceptable acceptable. Modern marketers set great store by the truth, and one can understand why, given marketing's less-than-illustrious heritage of diddling, double-dealing, and deceit. The truth, however, is that people don't want the truth, the whole truth, and nothing but the truth. And

even if they did, the last place they'd look for it would be a marketing campaign. Marketing is about glitz and glamour. It's mischievous and mysterious. Marketing, lest we forget, is fun.

From Four P's to Pure Tease

Retromarketing, then, is based on *exclusivity*, *secrecy*, *amplification*, *entertainment*, and *tricksterism*. At least this list of principles doesn't create an acronym...unless, of course, the sequence is reversed. To be sure, retromarketing is not appropriate on every occasion, nor is it applicable to every product, service, or market segment. But, then, the modern marketing concept of caring, sharing, all hold hands is not always the right approach, either.

Marketing managers, admittedly, may be dismayed by the thought of deliberately thwarting consumers. That's because they've fallen for their own line. They actually believe that if you love the customer enough, the customer will love you back. That is complete nonsense. Consumers, as a rule, don't love or care for marketing

types, especially when they purport to have the customers' interests at heart. Consumers *want* to dislike marketers, they *like* to dislike marketers, they *need* someone to hate, particularly in politically correct times when ethnic stereotyping and other such nastiness is effectively forbidden. Contemporary consumers are embarrassed by marketers who get down on one knee and promise to

love, honor, and obey. Get real! They would much prefer a good old-fashioned lovable rogue. Indeed, if marketers were *really* customer oriented, they'd give their customers what they want. Namely, old-style, gratuitously provocative marketing rather than the neutered, defanged, Disneyfied version that's peddled today.

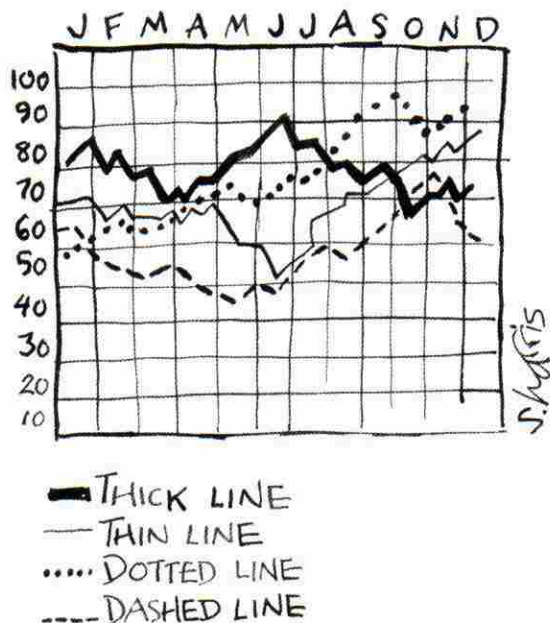
Retromarketing, in sum, harks back to the good old bad old days when marketers were pranksters and proud of it. It replaces the Seven S's with seven veils. Its Five Forces are flim, flam, flirt, fiddle, and finagle. Its Four P's are perturb, puzzle, perplex, and perhaps. Its Three C's are chafe, chide, and chortle. It puts the mark into marketing, the con into concept, the cuss into customers. It's a marketing philosophy for a retro-besotted world. It's tried and true. It's the greatest show on earth.

Would I lie to you?

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To order reprints, see the last page of Executive Summaries.

To further explore the topic of this article, go to www.hbr.org/explore.



Should Strategy Makers Become *Dream* *Weavers?*

by John Stopford

*To act fast in today's digital markets,
companies must rely on nonstop entrepreneurship,
up and down the corporate ladder.*

So what's a strategist to do?

Dream on.

A recent debate in *BusinessWeek* between Cisco's John Chambers and Intel's Andy Grove highlights the strategic dilemma facing executives today. Chambers argues that we are in the midst of a digital revolution that is fundamentally changing the way companies do business—and fast. Grove says we're simply on an evolutionary path. So which is it? Are we experiencing a major earthquake or just a minor shift in the business landscape? This question is frequently debated in my executive education classes, where senior

How Digital Is Your Business?
Adrian J. Slywotzky and David J. Morrison
Crown Business, 2000

From .com to .profit: Inventing Business Models That Deliver Value and Profit
Nick Earle and Peter Keen
Jossey-Bass, 2000

managers struggle to understand the technological forces shaping their companies' destinies and to determine the actions they should take to prepare for the future. One recent class participant, an executive at a large paper company, was inclined to ignore the digital revolution. He had observed, for instance, that the perceived advantage of buying lower-priced paperboard from an on-line auction was illusory: the winning bidder often could not carry through with its bid, so buyers were forced to return to their long-standing suppliers. Few others in the class agreed with that executive's perspective, but even the leaders who strongly disagreed confessed that they were just beginning to address the digital challenge.

Why are executives so unsure about formulating strategies in this new business environment? There are two challenges here. The first is the sheer difficulty of gaining a clear perspective on the nature of the digital revolution—particularly for those whose careers have been in old-economy companies. The second is actually creating a new corporate future, which is even harder. It requires that managers go beyond rational calculation to dream and experiment with new possibilities.

Help is at hand for meeting the first challenge: a cascade of new books that describe the changing business landscape. Some of the books are merely gee-whiz accounts, best restricted to airport reading, but a growing number are thoughtful attempts to codify practice and define the new market. Every major consulting house, it seems, has at least one entry in this new race to capture a share of executives' attention. And some of these books do deserve serious attention, for they provide insight on the new market forces and suggest many items for the new strategy agenda.

Transforming Business

Two books in particular provide a good starting point. The first, *How Digital Is Your Business?* by Adrian Slywotzky and David Morrison, both of Mercer Management Consulting, offers templates that executives can complete to see how

far their companies have advanced toward a digital business design. The authors recommend that companies shift their basis for creating value for customers from atoms (physical assets) to digital bits (information). To illustrate this point, they tell a series of success stories about new-economy companies like Dell and old-economy companies like Cemex, a Mexican cement producer. For in-

The content is the same; the process of making strategy must change radically.

stance, Cemex is using a satellite communications system to make timely and efficient cement deliveries using fewer trucks. The company has reduced its three-hour delivery window—standard for the industry—to 20 minutes and dropping. The authors point out that if a commodity-based business such as Cemex can creatively use information to challenge the leaders in its industry, other businesses can, too.

Along with demonstrating how some companies have advanced toward a digital business design, the book illuminates several familiar themes: speed as a competitive advantage, the manifold benefits of connectivity, opportunities for enormous leaps in productivity, and the breakdown of traditional industry boundaries. The book also highlights the advantages of thinking broadly. For instance, today's successful companies do not carry out narrow benchmarking searches in their own industries or even among the best-in-class companies. Instead, they look at companies in analogous markets. When Charles Schwab, was seeking strategic direction, it didn't study other brokerages; it examined Home Depot, Wal-Mart, and Hewlett-Packard—"companies in incredibly competitive environments, and with no patents, that have somehow, year after year, over decades, regenerated their competitive advantage." Schwab went beyond rational calculation to find inspiration from others who had defied economic gravity.

The second book, *From .com to .profit*, focuses on the economics of Internet-based businesses. The authors, Nick Earle, head of e-services at Hewlett-Packard, and Peter Keen, an independent consultant, address the challenge of competing in markets characterized by high technological uncertainty and increasing returns to scale. A winner-take-all outcome seems likely, they say, but that outcome may very well be temporary. Accordingly, the book looks beyond the Internet landgrab to lay out a six-point agenda for achieving a sustainable competitive edge: perfect your logistics, cultivate long-term customer relationships, harmonize your channels on the customers' behalf, build a power brand, transform your capital and cost structures, and become a value-adding intermediary or use one.

Sound familiar? Readers are likely to ask: What precisely is so new here? This is no more than an update of the traditional old-economy strategy agenda. Likewise, *How Digital Is Your Business?* doesn't offer any fundamentally new strategies—apart from a few items such as portals that revolutionize market channels. But both books are still worth serious attention: they suggest that while the content of strategy may not have changed much, the process of making strategy must change radically.

Transforming Strategy

Three aspects of the new business environment—all of them discussed directly or indirectly in the books—are driving changes in the strategy-making process.

First is the extraordinarily rapid decline in transaction costs we're seeing in markets around the world. As a result, many of the traditional advantages of scale are disappearing, allowing small companies to compete with the giants. Only a decade ago, Enron was a bit player

John Stopford is a professor of international business at London Business School and a coauthor of *Rejuvenating the Mature Business: The Competitive Challenge* (Harvard Business School Press, 1994).

BRIEF REVIEWS

The Entrepreneurial Mindset: Strategies for Continuously Creating Opportunity in an Age of Uncertainty

Rita Gunther McGrath and
Ian MacMillan
(Harvard Business School
Press, 2000)

Companies as well as individuals are trying to act more and more entrepreneurial, and there's an abundance of books offering them advice. This one from two business school professors is one of the more practical, if lengthy, guides to the disciplines at the heart of entrepreneurial success. Even the most mature industry offers opportunities for imaginative activists who analyze every step of the customer's experience and creatively reconfigure market segments. But success also depends on ruthlessly focusing on the profitable opportunities. The smoothly written narrative includes detailed checklists and intelligent discussions.

The Virtue of Prosperity: Finding Values in an Age of Techno-Affluence

Dnisha D'Souza
(Free Press, 2000)

Are the new rich different from the rest of us? The author points out that instead of rejecting their more modest upbringings – as previous entrepreneurs did – extremely wealthy people are eager to retain their middle-class values and identities. He also examines how general affluence has improved society's moral behavior but undermined the old foundations of happiness: nature, family, and community. Thinkers from across the ideological spectrum contribute insights on the meaning of capitalist pursuits. Unfortunately, the provocative sections of this meandering book are interrupted by familiar arguments about capitalism's effect on income inequality and social responsibility.

Profit Beyond Measure: Extraordinary Results Through Attention to Work and People

H. Thomas Johnson and
Anders Broms
(Free Press, 2000)

American factories have registered impressive gains in productivity, but this book argues they could do even better. The authors, an accounting professor and a consultant, describe how manufacturers have pursued economies of scale at the expense of what they call "economies of proximity." Drawing on detailed case studies of Toyota and Scania, they show the superiority of "ecological" principles such as connecting work to specific customer orders as early as possible. The argument is often persuasive, though it makes too little reference to other powerful explanations for the success of these factories. And it unconvincingly wraps up its argument with an environmentalist critique of managing according to results.

The Race Trap: Smart Strategies for Effective Racial Communication in Business and in Life

Robert L. Johnson and
Steven Simring
(HarperBusiness, 2000)

Too often, advice on diversity falls into an ideologically driven mess of feel-good sensitivity training and high-minded rhetoric. This book by two physicians, one black and the other white, instead offers concise but solid suggestions for dealing with racial tensions on the individual level. It fights the good fight while respecting people's self-interests, corporate legal realities, and the difficulties of making people give up their subtle biases. Despite the authors' backgrounds, examples from business outnumber those from health care or everyday life. Included is a practical questionnaire about handling ambiguous situations.

John T. Landry

in the world energy market. But it was an early adopter of the sort of advice offered by these books. It used new ideas as much as new technology and transformed itself from a sleepy regional pipeline operator into a market leader for a range of energy-related goods and services. Other new competitors are emerging from all quarters to challenge the established order, and incumbents need to improve their peripheral vision to get early warning of threats. Then – very rapidly – they need to find ways to innovate. It's this need for quick action and reaction that thwarts the traditional strategy-making process.

Second is how the Internet has broadened the supply of information. Unlike media technologies such as television that have promoted a passive response

from users, the Internet encourages activism of all kinds. Companies and their employees can learn about experiments and developments anywhere in the world. People are overcoming "it can't work" objections by pointing to evidence from other contexts. In effect, the networked economy has broadened the base of organizational intelligence. To restrict the strategic dialogue to a few executives at the top is to ignore valuable data, ideas, and energy. And those who find their ideas and ambitions ignored are likely to leave for more conducive environments.

Third, and partly a consequence of the first two, is the growing competition among business models. Strategic contests are not just about resources – the strong against the weak – but also about

alternative ideas regarding the weapons needed to compete. And those models, like their underlying technologies, are changing at an increasing pace. In previous eras, innovative strategies involved largely one-off efforts that relied on controlling physical assets – like Standard Oil's moves to control the flow of petroleum. Now that the key asset is ideas, competitive advantage can be brief, and companies must push ahead with new approaches to the marketplace if they are to grow or even survive. To change a business model once is hard enough; to do so repeatedly is the frontier challenge. Managers too often go on seeing the world through the lens of the past, and they make any evidence they collect fit that view – thereby reinforcing their existing business models.

Today's executives must adopt a new process for making strategy, one that emphasizes the role of people throughout the organization. Conventional strategy has been very good at analyzing stable markets, resources, and capabilities. It relies on detailed forecasting; just think of the assumptions that underpin the cherished SWOT analysis—an assessment of a company's strengths, weaknesses, opportunities, and threats. But never has our forecasting ability been so poor. There simply isn't enough time now to have people sit down and logically derive a strategy from the organization's current capabilities. And as both books point out, even assets are increasingly hard to pin down—just look at the divergence between book value and market value at the most successful companies. To be effective, strategy making must connect market dynamics to people's responsibilities and thus help them make the best choices for the business.

As Cisco's Chambers has said, "I can only make so many decisions and gather so much information at the pace of today's economy." But there's still a vital role for strategists who can glimpse where markets are headed, he adds. "If you empower your people, and they don't know the basic strategy—where we are going, what businesses we are going to be in, our core culture—you will get failure. People will go off in different directions." Strategy making must become distributed, yet still strongly networked, across the corporation.

Getting the Talent Together

The fact is, strategy can no longer focus single-mindedly on the fit between companies and their markets. It has to take stock of individuals and teams. It has to consider whether the climate and incentives at an organization really do encourage experimentation as well as discipline. Companies need to replicate all the strengths of a networked environment.

That means strategists have to do better than the dry, rational lists of observations and goals that I still see in most companies. The templates and prescrip-

tions offered by these two books are fine as far as they go, but they won't amount to an effective strategy. Strategy today is nothing without passion and vision from the people creating and implementing it. Indeed, dreams need to be at front and center of the strategy-making process.

Toward the end of *How Digital Is Your Business?*, almost as an afterthought, Slywotzky and Morrison describe what they call "internal marketing." To harness organizational energy, they say, leaders need to create the right message of change and continually repeat it. They point to Southwest Airlines' Herb Kelleher as an executive who did that with storytelling. Indeed, numerical goals are just a starting point; it takes emotional commitment to make organizations truly effective.

In fact, today's strategists would do well to adopt entrepreneurial attitudes. When companies start to transform themselves, no one knows for sure how they will reach their ambitious goals; the means to the end are discovered along the way. The same is true for entrepreneurs, whose goals usually far exceed the available resources. Entrepreneurs often state their goals in emotional terms that lend new meaning and dignity to the work required. They don't just have goals, they have dreams that are necessarily irrational in that the logic of today's market tells them they can't do it. Strategy making in the digital age requires this kind of entrepreneurial mind-set if it is to command the energy and dedication of all concerned.

The CEO of a large Japanese manufacturer understands the meaning and power of dreams. A few years ago, he realized that the company's production costs were too high for the market. He could have simply issued an order to tighten the budgets. Instead, he issued an extravagant challenge to the organization: "We must reduce costs within four years to a third of what they are today—or the business moves to China."

Though no one knew how to meet that target, they did not dismiss it as unrealistic. The CEO used stories from his own career as an entrepreneur and innovator to appeal to the imagination and emotions of his people. He was confident that they could figure out how to transform the company by sharing his dream.

As an added boost, he stimulated competition within the company by setting up "learning races" between teams

The challenge for management in the Internet age is to create an industrial version of what we learn from all social and political revolutionaries' dreams.

of senior and middle managers, young engineers, and production workers in the company union. Regular reports and comparisons helped encourage a climate of immense creativity in what was a mature industry. When I checked on the company's progress recently, the CEO told me costs were down by more than 35%, halfway to the goal, and that the production workers were setting the pace.

In that case, as in many companies, the CEO's dream was a stretch target, imposed from the top down. To rely solely on that approach, however, can be dangerous. Imposing a stretch target is to risk falling into the trap of hierarchy and the implicit assumption that the more senior you are, the greater your wisdom about the future. It's often much more productive to let individuals and teams translate the dream into a "reach" target that they impose on themselves. Like entrepreneurs, they often have their own informed sense of how to create the future.

I've worked with several large organizations to help define and codify the ambitions and ideals of multiple teams. In most cases, the reach goals set by the teams were even more ambitious than those originally considered stretch goals. Only those people at what we British call "the coal face" can really work out

the realities of translating dreams into purposeful action. Sometimes they'll fall short, but better to let them start the process; top-down goals can always be imposed later. As one chief executive remarked in a work session, "If we don't get enough reach, we'll have to settle for stretch."

It's worth pointing out that a dream isn't the same as a vision. One manager told me recently that when he hears the word "vision," he thinks of a complicated, political-sounding memo that everyone skims and nobody takes seriously. By contrast, dreams can be the focal point for extreme energy and can inform the values that sustain that energy. Dreams have a central role in sustaining effort through the pain and the sweat of a prolonged transformation program.

Without a dream, Winston Churchill and Martin Luther King would have gotten nowhere. The challenge for management in the Internet age is to create an industrial version of what we learn from all social and political revolutionaries' dreams.

Dreams matter not just for energizing the people you have but for attracting new people. We all need to ask ourselves

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why we choose the work we do. In today's market for talent, more and more people are choosing companies that have a passion to create something good or exciting.

British Airways dreamed of becoming the "World's Favorite Airline," and for a time that goal helped transform the company's fortunes. Instead of treating that dream as a convenient tag line for the advertising campaign, former CEO Colin Marshall and his team made it the centerpiece of a massive training effort to improve the previously woeful ser-

vices offered. Cabin crews strove to be the favorite by offering the best service; it made them proud to be on board. The airline's dream drew out a burst of creative activity from its employees.

Alas, that dream didn't outlast the decade. While dreams can inspire action, they will fade without constant reinforcement and refreshment. As business thinker Philip Crosby has remarked, "Sometimes management teams become so confident they doze off." Purpose becomes dulled. People go elsewhere for more excitement—particularly the adaptable ones who are well suited to the uncertainties of dynamic markets. There is competition for dreams out there, and you won't get the most valuable people behind you if you don't give them something to rally around.

The point of strategy is to help individuals choose among competing priorities. And the dream, the company's ambition for the future, can promote a climate of values that helps people make certain choices for themselves—while still permitting them to rapidly adapt when change is necessary. That is close to what entrepreneurs have always done: they experiment; they move fast. But now the challenge is to find ways to enable literally thousands of managers to be entrepreneurs, all working on the same dream. Andy Grove is right—companies don't need radical new strategies. But they do need to radically broaden their process for getting to the winning strategy.

Tomorrow's leading firms will be lucky—they will have stumbled on a coherent way through the disorienting earthquake of change. But their luck will have been earned. As Louis Pasteur said, "Chance favors the prepared mind." So we can also expect that chance will favor the prepared organization.

For a different look at making strategy in the new economy, see "Strategy as Simple Rules" in this issue of HBR.

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Segmentation?

What's right, wrong, and downright rotten with segmentation.

Smith's market segmentation concept is built into the fabric of marketing. Marketing authorities present segmentation as the starting point and the cornerstone of strategic thinking. Marketing researchers teach segmentation methods as essential research skills, and authors, from Kotler to Rao and Steckel to Neal, confirm the fundamental importance of the concept. (See Additional Reading section on page 25.)

Our overall commitment to this method is staggering. Each year, marketers, politicians, arts and service organizations, trade associations, and universities spend millions of dollars on segmentation studies to guide marketing decisions. Academicians, statisticians, and theoreticians earn advanced degrees and establish professional reputations by publishing dozens of papers purporting to refine segmentation methods. Thus, any criticism of this universally taught and widely used concept flies in the face of conventional wisdom and seems almost sacrilegious. However, it is precisely this universality and acceptance that makes close scrutiny so necessary. Segmentation is too important to marketing and marketing research to ignore its flaws and limitations or to leave its proper role undefined.

By Lawrence D. Gibson

EXECUTIVE SUMMARY

Wendell Smith may not have known it, but he created a marketing icon in 1956 when he proposed the idea of market segmentation ("...viewing a heterogeneous market as a number of smaller homogeneous markets"). However, close examination reveals problems with segmentation, the basic assumptions it makes, and the market segments it targets. This analysis highlights common segmentation practices so unprofessional, and in some cases so rotten, that they deserve much closer scrutiny.

WHAT'S WRONG

It is descriptive not predictive. Segmentation and the research to implement it are designed to describe markets as they exist today. In contrast, as Politz once pointed out, decisions are made with an eye to the future. They are based on the expectation of a certain favorable outcome, and the only information useful to the decision maker is information about the likelihood of that expected outcome. In short, a description of the market as it presently exists, before a decision is made, is intrinsically irrelevant to making that decision.

Marketing recommendations based on segmentation, or any other descriptive research, are inevitably subjective and inappropriate for decision-making. These studies always find strengths and weaknesses for the brand and the market. When these strengths and weaknesses are revealed, the question becomes, "Which should we do—build on the strengths or fix the weaknesses?" The answer to this question is not in the data. The data are neutral.

The general principle probably should be to fix the weaknesses for the new brand, but build on the strengths for the established brand. A new brand's image is not yet firmly established and is relatively easy to modify. The image of an established brand, however, is based on far more customer experience and is difficult to alter.

This reasoning seems obvious and easily defensible. Yet following it would have deprived Marlboro cigarettes of its successful "Marlboro Man" advertising campaign. That campaign completely reversed Marlboro's existing image, changing it from a sophisticated, upper-class, urban, rather effete product to a brand for real, outdoor, working men.

This principle also would have deprived Best Foods, then Corn Products Refining Co., of my first marketing research "success story." At CPC, I worked on Mazola Oil, a brand gaining volume, but losing market share. Our team conducted a descriptive market segmentation survey to determine who uses salad and cooking oil, what they use it for, and who uses which brand.

A study by Bill Simmons determined that large families and families from Southern Europe, especially Italy, used a lot of cooking oil. These Southern European families were more likely to use Mazola, while Northern European families were more likely to use Wesson. The largest volume uses were frying, then salads, and baking.

Accordingly, I recommended that we focus our advertising on changing our ethnic image by featuring young "American" families (to fix our brand weakness) and that we emphasize frying and salads, not baking (to build on market strength). My recommendations were implemented. Mazola's sales improved and share stabilized, making marketing research the hero.

But were those recommendations valid? Perhaps share stabilized because of a "Hawthorne" effect or because advertising expenditures rose or because Mazola became a higher priority to the sales department. Maybe we should have featured our popularity among Italian families, the "experts" who know oil best. A focus on baking, not frying and salads, might have created a greater response to advertising.

My recommendations were plausible, but the survey was descriptive. It said nothing about the outcome of the decisions recommended. It did not and it could not prove or disprove their validity. It simply showed strengths and weaknesses, and the real basis for the recommendations was my judgment.

It assumes segment homogeneity. Segmentation assumes the same homogeneity at the segment level that it rejects at the market level. It asserts that customers are so different they cannot be averaged and therefore must be classified into segments. However, within defined segments, it assumes customers are not different and can be averaged.

In other words, segmentation asserts that a single average customer cannot represent the tens of millions of individual customers in the entire market, but four, six, eight, or 20 average customers can represent the millions of individual customers in their respective segments.

In fact, the fundamental assumption of customer heterogeneity is true, radically true. Customers are different not only at the market level, but at the segment level. This heterogeneity is apparent to anyone looking at the individual respondents in any study. The fact that we seldom look prevents us from seeing and accepting this reality.

Small-scale tests of General Mills products first showed us this radical heterogeneity. For example, a report on a new sauce suggested it needed more salt, sherry, and seasoning. However, when we examined the findings respondent-by-respondent, we found that of the 27 people who wanted more salt, only seven wanted more sherry flavor and more seasoning. Six individuals wanted more seasoning and the same amount of sherry, while four individuals wanted the same amount of sherry and the same amount of seasoning. Of the 27 possible combinations of the three characteristics, 15 were preferred by at least one respondent.

Closer examination revealed that the original report recommendation was wrong. The most common single request was for the same salt, the same sherry, and the same seasoning—not more salt, sherry, and seasoning.

Similar patterns were found in every product class when the data were evaluated respondent-by-respondent. In a cake-mix product test, the respondents were asked to rate the test product as "too much," "just right," or "too little" on only 10 product characteristics (e.g., sweetness, moisture, etc.). The 136 respondents offered 135 different patterns of criticism of identical devil's food cake mix. A larger scale product test of a new children's cereal

found 561 different patterns of criticism among 1,176 child respondents. Again only three scale positions for 10 product dimensions were used.

Eric Marder Associates has found the same pattern of radical idiosyncrasy in consumer and industrial markets, product and service markets, and for both expensive and inexpensive products. It is seen among customers for restaurants, credit cards, desktop computers, paper napkins and towels, cake mix, gasoline stations, textbooks, telephones, printers and copiers, TV news shows, performing arts in New York, and potato chips in Holland.

Customers want different product characteristics, and they see the same products differently. A Betty Crocker cake mix is convenient to some customers, creative to others. A Honda is a cheap second car for some buyers; an expensive alternative to a used car for others.

It assumes competition-free segments. Another equally dangerous assumption is that competitors can be ignored at the segment level. Competitors are considered when choosing the target segment, and segments with strong competitors are disqualified. However, once the target-market segment is selected, competitors are ignored.

Customers always choose between alternatives, and their individual choices are not limited to particular market segments. For some customers, children's cereals compete with adult cereals, sweet, fruit-on-the-bottom yogurt competes with plain yogurt, expensive cars compete with inexpensive cars.

Automotive research has shown each car competes with every other car on a more or less random basis. Ford and Chevrolet once competed about 2 1/2 times more than random, while Cadillac and Chevrolet competed about half as much as random. With its larger share of market, Chevrolet, not Lincoln, was Cadillac's most important competitor.

The consequences of ignoring the competitors can be disastrous. For example, Coca-Cola found that cola drinkers preferred sweeter cola. Repeated paired comparison product tests showed the new sweeter Coca-Cola was preferred over regular Coke. Yet the new sweeter Coca-Cola failed because the market already had a sweeter cola named Pepsi Cola.

Competitive interactions can be subtle. A General Mills heavy-up advertising test in the Milwaukee Ad Lab produced a curious finding for Betty Crocker brownies. The more the brownies were advertised, the lower the sales. Copy testing and sales analysis confirmed these findings. The copy was not offensive or negative. It merely compared the Betty Crocker brownies to homemade brownies saying, "Remember how good old-fashioned homemade brownies used to taste? Now you can have..." Our conclusion was that the advertising had been successful, but only in selling homemade brownies.

Obvious or subtle, competition is always present, and ignoring that competition, even within a segment, is dangerous. The design of an offer to the average needs of a market segment faces exactly the same competitive vulnerability as the design of an offer to the average needs of the entire market. It's not a task for

Competition is always present, and ignoring that competition, even within a segment, is dangerous.

averaging, reasoning, or logic; it requires a process that enables trial and error.

It always defines the wrong segment. The target segments finally selected in traditional segmentation research always exclude significant numbers of real prospects and include significant numbers of non-prospects. They are inefficient at best, misleading at worst. This problem is not a result of researcher error, but is built into segmentation. Each and every segment includes

some prospects. When any one segment is selected as the target, prospects in the other segments are excluded.

Let's examine the structure of a real target-market segment as shown in Eric Marder Associates single-unit marketing model (SUMM) choice-modeling study of the performing arts. One key finding was that audience "dressiness" was an undesirable characteristic. Symphony concerts were seen as very dressy, which led to the question, "What if we could make symphony concerts be seen as less dressy?" Respondent-by-respondent simulations showed this strategy improved overall attitudes toward the symphony, but that it drove the symphony's share of choice down!

The explanation for this apparent anomaly is straightforward. Many patrons of other performing arts do not and will not go to the symphony. These prospective patrons believe the symphony is too dressy, but their opinions are irrelevant; they won't attend anyway.

In addition, many loyal symphony goers, especially those who sit in the last balcony, also believe the symphony is too dressy but their criticism is equally irrelevant. You couldn't drive them away from a concert. Meanwhile a few customers attend because "it's the thing to do" and they see dressing up as a necessary part of that image. They won't attend symphony concerts if they are not seen as dressy.

In other words, attitudes toward dressiness among the symphony's most loyal customers and among its least likely customers turn out to be equally irrelevant. It would be difficult for the symphony to lose the former or win the latter. Only those at the edge, those at the cusp of choice, count.

The real target segment for the symphony is now clear. It should focus its effort on those customers whom they have won narrowly, but could lose, and on those customers whom they have lost narrowly, but could win back.

Throughout our work, we observe the same phenomenon. The clients' most loyal customers are difficult to lose, and the competitors' most loyal customers are difficult to win. For example in a computer printer study, the client's brand attracted a 36% share of choice. Respondent-by-respondent simulation showed it would still retain a 16% share even if its price were raised by 50%. It would only attract a 56% share if its price were lowered to the lowest level in the study.

Smart politicians have long understood this strategy. It was not an accident that Hubert Humphrey always became more conservative at election time. He didn't bother with conservatives on the right because he knew he had no chance with them. He was willing to risk offending liberal supporters on the left because he knew they had no place else to go. He reached out to the middle and the undecided—those at the cusp.

Richard Nixon, another astute politician, followed the same strategy. Operating from the right, he always became more liberal at election time. More recently, Bill Clinton and George W. Bush have again demonstrated the efficacy of this strategy. The significance of the voter at the cusp is obvious in politics, but the concept is universally applicable.

The customers who count, the customers who must be predicted—the real market segment for decision-making—are those who are at the cusp of choice. The critical customers are those who are won narrowly, but might be lost and those who are lost narrowly, but might be won.

Identifying the customers at the cusp of choice is more difficult in business because there are more competitors and issues. The size and the composition of the segment depend on the issue. The key customers can only be identified through respondent-by-respondent analysis of a specific action. Any other way of defining the target segment results in the inclusion of irrelevant prospects and the exclusion of real customers.

WHAT'S ROTTEN

Four practices widely used in segmentation are so unprofessional they deserve to be called rotten, and their use in segmentation or any other evaluative marketing research should be condemned. In this time of truth in packaging, projects employing these methods should be required to carry the warning, "Caution! This research may be dangerous to the health of your brand."

The random walk. The segmentation analyst, alone or with computer, wanders through the data searching for patterns, and patterns are always found. Remember even random number tables have patterns or blocks of numbers with too many fives or with serial correlation. When a pattern is identified, it is statistically evaluated as if it were the only pattern investigated, which fraudulently overstates its significance.

Guilt by association. The old statistical warning, "correlation is not causation" is inverted, in segmentation research, correla-

tion is causation. Causation is asserted whenever any relationship is found between a data pattern and overall demand or brand share. If a consumer's maiden name were associated with a brand's share, then that characteristic would be cited as the cause of the share pattern. The relationship could not be random.

Causal labeling. The creative analyst reviews the complex data patterns and simplifies them with rich names for the segments, such as "striver," "inner-directed," "foot soldier," or "socially conscious." These labels are gross generalities, suggesting what is in the data, but also suggesting much more that is not in the data.

Clients are encouraged to use these labels, with all their connotations, in marketing-strategy discussions. There, the denotative and connotative meanings of the labels will be scrutinized, the strategic implications of the labels will be argued, and the labels, not the data, will drive marketing insights and strategies. The fallacy of reasoning from the labels rather than the data is never mentioned to the client.

If the original label is not sufficiently thought-provoking, it is simply replaced. In a recent industrial study, a project committee voted to change the label of a segment from "generalists" to "loyalist." Obviously these two labels have completely different connotations and will trigger completely different marketing discussions.

Of course, causal labels ignore within-segment heterogeneity, which increases the danger of reasoning from the label. In the same study, the so-called "foot soldiers" were officially described as "middle-level marketers" even though 34% were actually senior-level marketers and 14% earned more than \$100,000 a year.

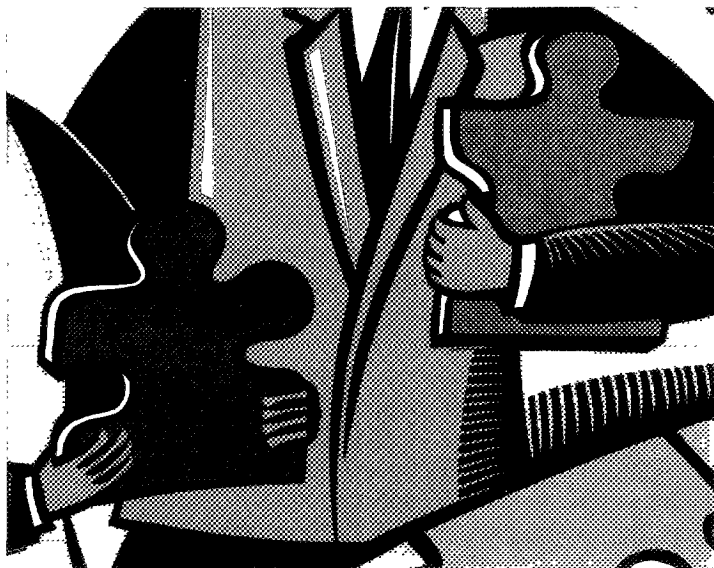
Analysis by index number. Index numbers based on relative volume are routinely used to enhance segmentation analysis because analysis of the absolute volume is so dull. The largest single segment almost always accounts for the most volume, and a distressingly large proportion of volume is always found in each segment.

A few years ago, a nationally known research firm recommended that yogurt marketers target their efforts at the high-consumption inner-directed group. Yogurt consumption indices for the inner-directed subgroups were 162, 128, and 121 compared to 108, 91, and 83 for the outer-directed subgroups. The inner-directed consumers were described as young, individualistic, educated, urban, and interested in trying new things.

Unfortunately, this index-number recommendation literally directed marketers away from yogurt volume. The inner-directed segment contributed less than 1/3 of yogurt consumers because they made up only 21% of the population. Meanwhile, 68% of yogurt consumers came from the much larger outer-directed segment. It's worth considering how well the inner-directed marketing strategy would work with the outer-directed consumers who actually eat most of the yogurt.

WHAT'S RIGHT

Why has the concept of segmentation, so logically flawed and so widely misused, maintained its popularity? Over time, it has developed a substantial body of self-interest. Market segmentation provides a major flow of projects and profit for com-



mercial marketing research firms. It offers mathematically inclined academics endless opportunities for statistical innovation and is part of the stock in trade of teachers.

Undoubtedly, the simplicity of segmentation is attractive, perhaps even necessary for many marketers. The complexity of marketing to millions of customers who really are different overwhelms them. Others may see segmentation as a sophisticated step forward because they have not dug into its superficial logic.

However, I believe the most important reason that marketers hang on to segmentation is its reputation as an orderly, systematic way to stimulate creativity. No doubt it has helped many marketers generate profitable new ideas. Not sensitive to the structural difference between generating and evaluating ideas, these marketers use segmentation for both purposes. They remember its success in idea generation and forget its failure in idea evaluation.

Unfortunately, these marketers have never been taught the classic scientific distinction between generating and evaluating hypotheses. Scientists have long understood that any idea-generation technique is acceptable if it produces ideas that might survive later evaluation. However, idea-evaluation techniques must have the rigor and discipline of formal experiments.

In marketing, segmentation can be a valuable creative heuristic for idea generation, even though it is useless for idea evaluation and decision making. Preliminary segmentation

hypotheses can be used for idea generation without quantification; for this purpose, data precision is irrelevant. Skipping the expensive quantitative phase of segmentation research will save time and money necessary for objective, predictive testing to evaluate the ideas. ●

ADDITIONAL READING

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Poltz, Alfred (1990). "Effective Market and Opinion Research," Chapter 5.1, *The Politz Papers*. American Marketing Association.

Rao V. thala R. and Joel H. Steckel (1998), *Analysis for Strategic Marketing*. Chapter 2. Addison Wesley Longman Inc.

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A promotional graphic for the AMA website. The background is dark with a halftone dot pattern. At the top, the text "visit our Web site" is written in a spaced-out, lowercase font. Below this, the URL "www.ama.org" is displayed in a large, bold, white font with a slight 3D effect. At the bottom, there are four rectangular buttons with a metallic, beveled appearance. Each button contains white text: "Marketing discussion groups", "Updated information on advertising in AMA publications", "Tables of contents from AMA magazines and journals", and "Plus much more".